The Canadian Chartered Accountant

CANADIAN INDUSTRIES
LIMITED
MAR 2 1949
LIBRARY
MONTREAL

- **Depreciation Policies of Canadian Railways**
  by A. W. Currie

- **Auditing against Fraud**
  by H. I. Ross

- **Changes in Income Tax Law**
  by J. G. Glassco

- **Improving Corporate Financial Statements**
  by Alan W. Bell

EBRUARY
1 9 4 9

THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

$5.00 A YEAR - 50c A COPY

NOW...

COMPLETE INCOME TAX INFORMATION

Conveniently Indexed in a Handy Reference Book

Income Tax queries are quickly and authoritatively answered in the new 1949 edition of—

"HOW TO PREPARE YOUR INCOME TAX"

by LANCELOT J. SMITH, C.A.

Prepared with the co-operation of Income Tax offices at Ottawa and Toronto. Contains nearly 100 pages of clear explanatory text and illustrations of the latest official forms. Explains how the new Income Tax Act affects tax paid by individuals, partnerships and unincorporated businesses.

Also contains a summary of changes in law effected by the new income tax act plus a free supplementary service that keeps you posted on any subsequent amendments affecting 1948 returns. There is, in addition, a list of dividends paid by Canadian companies during 1948.

"HOW TO PREPARE YOUR INCOME TAX", per copy, $1

Order by Letter, Telephone or visit any of our three Toronto stores.



Everything for the office

GRAND & TOY LIMITED

SUPPLIES • PRINTING • FURNITURE

ELgin 6481

6-14 WELLINGTON ST. WEST TORONTO 1, ONTARIO

BRANCH: 332 BAY ST. BRANCH: 715 YONGE ST.



NORMAN COWAN

Life Insurance and Annuity Counsellor

- Government-Approved Pensions
- Succession Duty Insurance
- Business Insurance
- Estate Analysis

IMPERIAL LIFE ASSURANCE COMPANY OF CANADA

320 Bay St., Toronto. WA. 8365 Residence MA. 8896

THE CANADIAN SURETY COMPANY

Specialists in

ACCOUNTANTS' LIABILITY INSURANCE

and

BLANKET DISHONESTY BONDS

The Company also writes:

Inland Transportation, Personal Property Floater, Fire, Automobile, Burglary, Forgery, Liability, Plate Glass, Aviation Insurance and Fidelity and Surety Bonds.

Branches:

MONTREAL - TORONTO - WINNIPEG - EDMONTON - VANCOUVER

MEDLAND & SON

GENERAL INSURANCE AGENTS AND BROKERS SINCE 1878

371 BAY STREET, TORONTO—PHONE EL. 3332

SOL EISEN

INSURANCE COUNSELLOR

★ Pensions
★ Annuities
★ Business Insurance

Employer—Employee Pension Plans Designed—Installed—Serviced

1946 member MILLION DOLLAR ROUND TABLE M.A.L.U.

330 University Ave., Toronto Waverley 7432

ACCO *Binders*

of Fine Pressboard

For All Loose Leaf Forms



These Binders of fine smooth Pressboard, equipped with the universally known ACCO Fastener, provide a most practical and economical means of binding everything from Vouchers to Distribution Sheets.

Surprising economies in cost are effected in the use of sizes from 11x14 up.

Five distinct colors are available — Black, Red, Green, Grey and Blue. Fastener capacities up to 2,000 sheets.

Your Commercial Stationer will supply you.

ACCO PRODUCTS
comprise:
BINDERS, FOLDERS,
FASTENERS, PUNCHES,
CLAMPS, CLIPS,
FILE GUIDES

Made by
Acco Canadian Co.
Limited, Toronto

The Canadian Chartered Accountant

VOLUME 54 FEBRUARY 1949 NUMBER 2

Comment and Opinion 47
Accounting for Annuity Costs Based on Past Services; Qualifications in Audit Reports; Inter-American Conference on Accounting

The Late George C. Rooke 49

Changes in Income Tax Law *J. G. Glassco* 50

Depreciation Policies of Canadian Railways *A. W. Currie* 59

Auditing against Fraud *H. I. Ross* 69

On Improving Corporate Financial Statements *Alan W. Bell* 74

Recent Books 77
Profits Tax; Costing for Control; Efficient Business Management through Budgeting and Budgeting Control

Current Reading 79

Letters from Readers 82

The Students' Department *J. E. Smyth* 84

Professional Notes 93

PUBLISHED MONTHLY

By The Dominion Association of Chartered Accountants
Editorial and Business Offices, 10 Adelaide Street East, Toronto, Ontario

R. F. BRUCE TAYLOR, F.C.A., *Chairman, Editorial Committee*
MELVILLE PIERCE, *Managing Editor* JEAN VALE, *Assistant Editor*

Subscriptions to *The Canadian Chartered Accountant* and *The Tax Review*: $5.00 a year. Additional subscriptions to *The Tax Review*: $3.00 a year.
Single copies (including *The Tax Review*) 50c. Single copies of *The Tax Review* 25c.

A volume index to *The Canadian Chartered Accountant* is published semi-annually and to *The Tax Review* annually.
Opinions expressed in articles and comment are not necessarily endorsed by The Dominion Association of Chartered Accountants.

Advertising rates on request.
Authorized as second class mail by the Post Office Department, Ottawa

FOR THE MARGIN OF DIFFERENCE
THAT DISTINGUISHES YOUR PRINTING . . .

choose

GOODFELLOW PRINTING CO.
LIMITED

We Specialize in

Trade and Professional Publications . . . Financial Reports. . .
Books . . . Catalogues . . . Magazines

Your Inquiries Solicited

TORONTO
119 Adelaide St. West
AD. 0106

OSHAWA
57 Simcoe St. South
Telephone 35

EXECUTIVE ACCOUNTANT

Large industrial organization requires senior accountant of executive calibre. University graduate with a recognized degree in accounting preferred, and experience in costs essential.

Reply stating full particulars to Box 65 The Canadian Chartered Accountant, 10 Adelaide Street East, Toronto, Ontario

CHARTERED ACCOUNTANTS WANTED

A number of Chartered Accountants are needed for interesting and varied work which requires skill, alertness and imagination with an opportunity to travel in Canada.

The prospects for future advancement are excellent and there is a liberal pension plan. Starting salaries are dependent on training and experience and compare favourably with current rates. Recent graduates, as well as those with some years' post-graduate experience, are required.

Enquiries from veterans are especially invited.

Box 71 The Canadian Chartered Accountant,
10 Adelaide Street East, Toronto 1, Ont.

CHARTERED ACCOUNTANT

Large Manufacturing Establishment in Hamilton requires services of Chartered Accountant with Administrative and Executive Ability. Age 30 to 35 preferred. Position is of permanent nature and offers excellent opportunities.

Apply Box 75, The Canadian Chartered Accountant, 10 Adelaide Street East, Toronto, Ontario.

OPPORTUNITY FOR YOUNG CHARTERED ACCOUNTANTS

In the accounting, financial and administrative departments of large corporations in South America. Excellent salary to start — plenty of opportunity for advancement — four months' leave with return expenses to Canada every three years.

Apply c/o Crombie Advertising Co., Ltd., 24 King Street West, Box 491, Toronto, Ontario.

EXECUTIVE CHARTERED ACCOUNTANT AVAILABLE

Chartered Accountant with fifteen years industrial experience desires position as Comptroller or in similar executive capacity. Thoroughly conversant with accounting, auditing, taxation and financial problems. Best references on request. Apply Box 76, The Canadian Chartered Accountant, 10 Adelaide St. E., Toronto, Ontario.

EXPERIENCED ACCOUNTANT WANTED

Required by a Canadian-financed public utility company operating in South America, a senior, C.A. or B.Com. accountant, degree preferred, knowledge of Spanish desirable but not essential. Good starting salary.

Applicants are invited to submit in confidence, particulars as to marital status, age, education, business experience, and general qualifications.

Any subsequent personal interviews, if arranged, will be at the advertiser's expense.

Write Box 72, The Canadian Chartered Accountant, 10 Adelaide Street East, Toronto, Ontario.

CHARTERED ACCOUNTANT, 44, DESIRES EXECUTIVE POSITION

in industrial or business concern. Diversified commercial experience abroad; public accountancy in Canada; legal background. Thoroughly versed in all taxation matters.

Replies: Box 74, The Canadian Chartered Accountant, 10 Adelaide Street East, Toronto, Ontario.

PURCHASE OF PRACTICE

A firm of chartered accountants with offices in several cities wishes to extend its practice in Toronto by acquiring the practice of a chartered accountant who is contemplating retirement. Replies will be regarded as confidential. Apply Box 78, The Canadian Chartered Accountant, 10 Adelaide St. E., Toronto, Ontario.

CHARTERED ACCOUNTANT IN TORONTO

with own clientele, seeks association with well-established firm of Chartered Accountants, on expense-sharing or limited partnership basis. Wide experience in finance and commerce, public accountancy, organization and system work, with special knowledge of taxation.

Replies strictly confidential to Box 73, The Canadian Chartered Accountant, 10 Adelaide Street East, Toronto, Ontario.

STEWART, SMITH, MACKEEN, COVERT & ROGERS

Barristers, Solicitors, Etc.

Roy Building - - - *Halifax, N.S.*

ST-LAURENT, TASCHEREAU, ST-LAURENT & NOEL

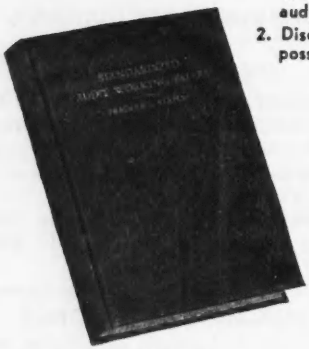
Barristers and Solicitors

Price House, 65 St. Anne Street - - *Quebec, P.Q.*

Standardized Audit Working Papers

THE BOOK INCLUDES . . . 1. Miniature of a complete set of Standardized Audit Working Papers filled out as for a typical annual audit engagement.

2. Discussion of accounting practice and innovations possible with standardized working papers.



243 pages, order direct or at your bookstore (Canadian Exchange Accepted) Price $4.50

Sent on 10-day approval in U.S. and Canada. Postage paid on cash orders; some return privilege.

The Canadian Customs Department advise that the book may be allowed free from customs duty.

THE CANADIAN CHARTERED ACCOUNTANT — "a book which every practising accountant should find interesting and instructive . . . written in a very practical manner and reflects years of experience in carrying out and supervising audit work. It is in fact a condensation of wide experience as applied to audit procedure rather than audit theory . . . a revelation in the foundation it provides for carrying out an efficient audit."

THE CHARTERED ACCOUNTANT IN AUSTRALIA —"Both the text book and the actual papers are prepared in a practical manner . . . Even those firms which have installed adequate systems of audit control will receive ideas from this book."

THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT — "Though many arguments may be advanced against the use of standardized audit working papers, the subject is one which deserves consideration by practicing accountants. Mr. Staples ably presents the case in favor of their use."

THE ACCOUNTANT (LONDON) — "The system is obviously the result of the application of wide practical experience to a highly systematized basis."

THE IRISH ACCOUNTANT—"A book which should be read by every practising accountant and audit clerk in this country . . ."

By Frederick Staples

C. P. A. (Calif. and Wis.), Member of American Institute of Accountants, Senior Partner, Frederick Staples & Co., Certified Public Accountants.

THE COUNTING HOUSE PUBLISHING CO.

Milwaukee 2, Wisconsin, U.S.A.

THE COUNTING HOUSE PUBLISHING CO., Milwaukee 2, Wisconsin

Please send the book "Standardized Audit Working Papers":

☐ on 10 days approval

☐ Check is enclosed (postage paid on cash order)

Name .....

Street .....

City ..... State .....

Date ..... 19.....

The Canadian Chartered Accountant

VOLUME 54 FEBRUARY 1949 NUMBER 2

COMMENT AND OPINION

Accounting for Annuity Costs Based on Past Services

THE COMMITTEE of Accounting Procedure of The American Institute of Accountants has issued its Accounting Research Bulletin No. 36 under this heading. This Bulletin was unanimously adopted by the twenty-one members of the committee.

The conclusions reached are:

> a) Costs of annuities based on past service should be allocated to current and future periods; provided, however, that if they are not sufficiently material in amount to distort the results of operations in a single period, they may be absorbed in the current year.
>
> b) Costs of annuities based on past services should not be charged to surplus.

The Committee felt that, even though the calculation is based on past services, costs of annuities based on such services are generally incurred in contemplation of present and future services not necessarily of the individual affected but of the organization as a whole and, therefore, should be charged to the present and future periods benefited. The element of past services is one of the important considerations of most pension plans and costs incurred on account of such past services contribute to the benefits gained by the adoption of a plan. It is usually expected that such benefits will include better employee morale, the removal of superannuated employees from the payroll, and the attraction and retention of more desirable personnel, all of which should result in improved operations.

This writer confesses that this unanimous conclusion comes to him as a surprise, as he has previously held the view that the cost of past service of present employees (there could be no others in the eligible group) represented to them a bonus for past services and to the employer the present recognition of a cost properly allocatable to earnings of prior years, in other words that there was, in a sense, a sharing of past profits with employees still on the roll. The argument of this committee is, however, a very persuasive one and one well worth considerable study by our members. The committee has made no attempt to define the future period over which this cost for past services should be allocated. It is presumed, we suppose, that that will not be left to a free decision by management but arbitrarily decided for it by taxing authorities.

Qualifications in Audit Reports

WE WERE somewhat startled to read the following phrases in an auditor's report recently,—

> We have obtained all the information and explanations we have required, and subject to the fact that no provision has been made for doubtful accounts, the annexed Balance Sheet is . . .

It had been thought that our educational curriculum, as developed in the last fifteen or twenty years, and the advice given by older members would have caused all

public accountants in Canada to shy away from such a qualification in horror.

R. G. H. Smails in "Auditing" has covered the subject at issue very clearly, and he has pointed out that an auditor must not hesitate to qualify his report by explaining clearly and fully in what respects he considers the accounts to be deficient. "He does not discharge his duty by giving shareholders generalizations or truisms intended to arouse their suspicion and put them on enquiry." Again, "the auditor should not needlessly wound the susceptibilities of directors, and particularly he should distinguish between a reservation on a point where information and explanations are withheld by directors and one where the explanations are lacking because they are inaccessible to all parties."

In this case, the auditors state that they have obtained all the information and explanations they required and it follows that they must have come to some conclusion on the likelihood of a possible loss on bad debt account. As Smails continues, "if exception is taken to a valuation the auditor should, whereever possible, state explicitly the amount of the discrepancy between his own and the directors' estimate."

In the case in point, the statement would not be given wide distribution and it may have been thought, in justification of what must have been a compromise, that the point in principle was not important. However, we should not agree that there are different principles to be applied dependent upon the circulation to be given the report. If the amount involved had not been material in relation to the asset, no qualification would have been necessary. If a qualification is necessary, the auditor is being unfair to all concerned if he fails to state his opinion of the importance of the qualification.

Inter-American Conference on Accounting

THE FIRST Inter-American Conference on Accounting is to be held in San Juan, Puerto Rico, May 18-22, 1949 at the invitation of The Puerto Rico Institute of Accountants. It is expected that some twenty countries will participate. Each country is requested to submit five manuscripts, all of which will be published, but only two of which will be presented and discussed. The Dominion Association of Chartered Accountants will be represented by the President of the Association and is arranging the preparation of papers. The following topics are among the chief of those to be discussed: accounting practices of each country and their relation to its commerce, industry and government; establishment of uniform basic requirements for public accounting practice; uniform accounting terminology; accounting research; goodwill and fraternity among the accountants of America and the formation of an Inter-American Congress.

Multilateralism of Currencies

THROUGH the kindness of an unknown guest of Childs' Restaurant in Toronto recently, we carried away with us a copy of the Chicago Journal of Commerce of January 5, 1949. Editorially, it took the Economic Co-operation Administration for a Cook's Tour and delivered itself of some weighty pronouncements such as that manufacturers and banks in the central western States were not getting their fair share of the *largesse* (the Journal's word) being handed out at Washington. One of its recommendations to President Truman and Mr. Paul G. Hoffman was that "the long-awaited day when European currencies become mutually convertible should be made to dawn". This concept of a forced world recovery on a unilateral

DOMINION PRIZE WINNERS IN 1948 EXAMINATIONS



J. Bernard Thomas

(*British Columbia*)

Silver medal and cash prize of $25 for highest standing in the intermediate examination.



Alan G. Watson

(*Ontario*)

Gold medal and cash prize of $50 for highest standing in Canada in the final examination.



Graham A. Chambers

(*British Columbia*)

Silver medal and cash prize of $25 for second highest standing in Canada in the final examination.

basis with no recognition of the efforts now being made by European (and other) countries to make the E.C.A. aid as effective as possible by joint effort rather appalled us, and, on the rhetorical side of the matter, our mean nature at once brought to mind the celebrated phrase "The sun never sets on the British Empire". We hope we have quoted it correctly.

OBITUARY

The Late George C. Rooke

Past President of The Dominion Association of Chartered Accountants

The Institute of Chartered Accountants of Saskatchewan announces with deep regret the sudden death of Mr. George C. Rooke, M.B.E., F.C.A. Born in Durham, England, in 1883, the late Mr. Rooke came to Canada with his family in 1890. He obtained his Bachelor of Accounting degree from the University of Saskatchewan and was admitted to the Saskatchewan Institute in 1911. He was elected a Fellow of that Institute in 1918.

After spending a few years in Winnipeg, the late Mr. Rooke became an accountant with the Leader Publishing Co. until 1911 when he opened an office for the practice of his profession. At the time of his death he was senior partner of the firm Rooke, Thomas and Company.

Aviation activities were among the many interests of the late Mr. Rooke. In 1940, when he was president of the Regina Flying Club, he organized No. 15 Elementary Flying Training School at Regina under the British Commonwealth Air Training Plan and became its president and manager. In recognition of this service to his country he was made a member of the Order of the British Empire.

In the service of his Profession, the late Mr. Rooke was President of the Saskatchewan Institute in 1916 and in 1923. In 1930 he was elected President of The Dominion Association of Chartered Accountants and remained on its executive until 1933.

He was also keenly interested in municipal and provincial affairs, serving in the capacity of President of the Regina Board of Trade in 1929, and acting on various Provincial Commissions dealing with tax affairs, liquor legislation and the like. He was a former member of the Senate of the University of Saskatchewan.

To his widow, son and brothers the Institute extends its sincere sympathy.

Changes in Income Tax Law

By J. G. Glassco, F.C.A.

President, the Institute of Chartered Accountants of Ontario

Abolition of Discretion • Bad Debts • Computation of Income • Valuation of Inventories • Admissibility of LIFO • Loss Carry-over • Constructive Receipt of Income • Taxation of "Benefits" Conferred • New Appeal Procedure • Tax Avoidance

IT IS a curious fact about income tax that while an increasing number of people are becoming knowledgeable about it, very few seem ready to get up and say what they think. This, I know, is not due to the absence of any strong views, nor can such mass reticence be attributed merely to modesty. The real reason, and it is a regrettable one, is that too many fear that in criticising our tax structure, they may be regarded as pleading the cause of their own pocketbooks. Thus it is that our business and financial leaders, with the notable exception of bank presidents, seem to maintain an embarrassed silence, and what the public receives by way of contemporary criticism is largely in the nature of political propaganda. I need hardly remind this audience of the personal stake which every Canadian has in the development of sound taxation policies. This applies even to the smallest wage earner because if our tax methods go wrong, his livelihood, even his way of life, may be imperilled.

Revision of Act

The events leading up to the revision of our income tax law are well known. The special Senate Committee, appointed in October 1945, spearheaded a growing public dissatisfaction. We had an overworked and short-handed administration, trying to apply statutes which became annually more complex and confused. The focal point of public criticism was probably the broad degree of discretion granted to the Minister and exercised on his behalf by the Commissioner, later the Deputy Minister of Taxation. There was a feeling that the Act, as it stood, did not permit the average citizen to determine his liability because so many important matters were left to be settled by the exercise of discretion. There was also a feeling that these broad powers were being exercised in an arbitrary fashion.

It is, I think, fair to say that the Government did not, with any noticeable enthusiasm, welcome the intervention of the Senate in this vexed problem. After holding lengthy hearings, the Senate Committee recommended that a court or board be set up with power to review the exercise of discretion by the Minister and to vary the same if it disagreed. The Government countered by providing for a board to advise the Minister but without power to enforce its findings. This

An address to the General Accountants' Association, Toronto, November 16, 1948.

board was, however, never appointed and a year later the Minister of Finance had publicly committed himself to a complete revision of the Act.

By tradition, the Senate is supposed not to interfere with taxation, but by taking the initiative in this instance, and in providing an opportunity for the public to air its views, it seems to me that the Upper Chamber performed a valuable public service.

It is interesting to observe that in its approach to the problem of revision, the Government adopted a rather unusual method. It introduced its first draft of the new law into the Commons (the well-known Bill 454) in July, 1947, with no intention of enactment as it stood. The public was invited to study it and to make suggestions for its further improvement, and some eleven months elapsed before the new Income Tax Act, substantially changed in some regards, appeared and was made law at the last session of Parliament. In the interval there was feverish activity: a little slow in starting, perhaps, but very feverish at the end, by various bodies, accountants, lawyers, labour unions and, appropriately enough, by the Income Tax department itself. Never was so much learned by so many in so short a time!

Changes in Law

With the appearance of Bill 454, the general intention of the Government became pretty clear. All discretions were gone — nearly 100 of them wiped out — in their place the new Act laid down requirements of reasonableness and equity which, when called in question, would be settled by the Courts. Next there was a complete rearrangement of the subject matter into a consistent and orderly pattern. Clarity was achieved by moving special case legislation on such subjects as co-operatives, pension plans, non-residents, etc., to separate sections, away from the main body of the law. Everyone agrees that this phase of the work was well done and a great improvement secured.

As to the substance, the Minister, Mr. Abbott, admitted that no very radical changes had been made; perhaps, he said, that would come later. But when Bill 454 was examined closely, two important conclusions became evident. First, the adoption of a lot of new language could, depending upon the interpretation placed on such by the Courts, bring about quite important and possibly unintended changes in the meaning of the law. For example, the Act speaks of "conferring a benefit on a taxpayer". We may all think we know what that means, but we cannot be certain until the Courts have had a go at it. The second conclusion is that the Government was not able to resist the temptation of plugging up a few rat-holes as it went along. Examples of this, are the new provisions relating to hire purchase and lease option agreements, and the denial to corporations of losses on security transactions where dividends on such securities have previously been received tax free under the usual inter-company dividend exemption.

As I have said, a great deal of work was done on Bill 454 by various bodies and, by and large, it was unselfish and objective work. The Canadian Tax Foundation, a new body formed for taxation research by the Canadian Bar Association and The Dominion Association of Chartered Accountants, swung into action and convened a tax conference on the Bill in December last. It brought together a large group of expert and able lawyers, accountants and tax administrators. Written recommendations were submitted to the Government by a large number of organizations interested in the matter.

The results of this intensive study and criticism by the public are clearly visible in the text of the new law. Some disappointment has been expressed that the Government adopted most of the suggestions which ran in favour ot the administration and too few of those designed to assist and protect the taxpayer. This is, perhaps, no more than human, and one must realize that the final text of the law was the result of weeks of conference around a table at which no representatives of the taxpayer could be present. In the circumstances, I think it was unavoidable, but I would hope that in future the Government might heed the representations already made — that the public should be allowed to be heard by a committee of the House or the Senate before any changes in the law are passed by Parliament. You cannot reasonably expect the tax administrator to plead the cause of the taxpayer in the council chamber of the Government on the eve of the budget.

Abolition of Discretion

Now let us turn to the new law and see what the important changes are. First and foremost is the wiping out of discretion. What, we ask ourselves, will that mean in practice? I think it means the end of so-called "beneficial rulings". When we complained most vigorously about discretion, we were apt to forget that it worked two ways: it gave the Minister not only the power to say "no", from which there was no appeal, but it effectively forced him to a decision on all those matters of which he was made the judge. On balance, there were certainly many more "yeses" than "noes" but under the new law, the prudent administrator, when faced with a doubtful case, will be apt to leave the decision to the Courts. In other words, the freeing of the administration from the responsibility of making final decisions, is certain to increase substantially the amount of litigation.

It is to be hoped that as case law accumulates, a definite pattern will develop as to many matters on which there has been uncertainty and inconsistency. But when one looks over the case law in the United States, its enormous range and volume, it is pretty clear that we shall pay a price for the sweeping out of discretion as we have known it for so long. I do not suggest that the price is too great; I only remind you that we are not getting something for nothing.

The by-product of the abolition of discretion, and it is, I feel, an important one, is that there will be an end to the secrecy which has always shrouded certain aspects of assessment practice. The new Act provides that regulations shall be passed by order-in-council covering depreciation allowances and various other matters. These regulations, plus the decisions of the new Board of Tax Appeals will be available to the public and, as a result, much of the former uncertainty should disappear.

Bad Debts

There are a few changes in the law which are of particular interest to accountants. For example, the treatment of bad debts and bad debt reserves is substantially changed. The new pattern, borrowed from the South African law, places the onus each year upon the taxpayer to justify the reserve which he claims and that reserve, being allowed one year, is automatically made part ot the taxable income of the succeeding year. This, I think, means an end to the old rule of thumb method of allowing a reserve up to 10% of the accounts receivable, and I have no doubt that many taxpayers are going to find their reserves sharply reduced from existing levels. The transitional provisions of the law, which link it up with the old

law, provide that in the case of reserves on the books at the beginning of the 1949 period, such shall be taxed as part of the 1949 income except "such part thereof, if any, as the taxpayer establishes cannot reasonably" be so taxed. Thus taxpayers will have an opportunity of arguing for the exclusion from taxation of any part of their existing reserve which for special reasons should be exempt: for example, an existing reserve, the creation of which had been disallowed as a deduction in previous years.

When it comes to justifying the reserve to be claimed at the end of the 1949 period, I suggest that the taxpayer will be expected to submit some evidence as to the reasonableness of his reserve and that may well require the study over a period of years of the loss experience of the taxpayer.

Accrual Basis of Income Computation

Another interesting point is the reflection in the new Act of the decision in the *Trapp* case. This was the case in which the Exchequer Court held that there was no sanction in the *Income War Tax Act* for the use of what we know as the accrued basis. The problems raised by this judgment have been met in part, although perhaps not completely, by several specific provisions of the new law. First, there is a consistency rule, section 14, which provides that when a taxpayer has adopted a certain method for computing income from a business or property, and that method has been accepted, it may not be changed without the concurrence of the Minister. That, plus the immediately following reference to the basis of inventory valuation, seems to contemplate the accrual basis as a legal alternative in so far as it concerns income from a business or property. On the other hand, income from an office or employment must be reported on a cash basis and it is specifically provided, with a single exception in favour of transport employees, that such income may not be reduced by claims for expenses incurred by an employee.

I have suggested that so far as income from a business or property is concerned, the changes seem to regularize the use of the accrued basis. It may be that they go further than this and that the new Act as a whole can be interpreted to require the use of whatever accounting method properly states the profit of the business. If this is true, it will no longer be possible for businesses, by electing to be taxed on the cash basis and ignoring inventories and accounts receivable, to pay taxes on amounts which vary considerably from those which would arise under the accrued method.

The new Act states categorically that income from a business or property is the profit therefrom for the year, and in the face of that, I think it can be argued that where the proper determination of profit involves consideration of differences in inventories, accounts receivable, accounts payable, etc., such cannot be ignored. It is very difficult to see on what grounds it can now be alleged that the net cash receipts of a trading or manufacturing business can possibly be said to represent the profits of the business.

Valuation of Inventories

I referred a moment ago to a reference in the new Act to the valuation of inventories. As you know, the old Act made no mention of this matter, and the provision of the new law is that inventories shall be valued at cost or their market value, whichever is lower, or in such other manner as may be permitted by regulations. At first glance, this seems to give the administration the whiphand over inventory practices and by failing to pass regulations permitting other methods, the Department could outlaw such inventory procedures as the retail

methods, followed by nearly all department stores, the basic stock method and others.

However, the real controversy about inventory valuation is in connection with the acceptability of LIFO or what is called the "last-in first-out" method, and I suggest to you that under the wording of the new law, this method is not as certainly outlawed as may at first appear. My reason for that conclusion is that LIFO is not in itself a complete inventory method: it is merely one of the three alternative methods, each of them sanctioned as good accounting practice, for the determination of cost for inventory purposes. The Act as it stands does not give the Governor-in-Council power to make regulations as to the method of determining cost: it merely authorizes regulations admitting methods other than the lower of cost or market method.

In elaboration of the real nature of LIFO, I should like to quote from an Accounting Research Bulletin of the American Institute of Accountants, which was released in July, 1947, on the subject of inventory pricing. Statement 4 of this Bulletin reads as follows:

> Cost for inventory purposes may be determined under any one of several assumptions as to the flow of cost factors (such as "first-in first-out," "average," and "last-in first-out"); the major objective in selecting a method should be to choose the one which, under the circumstances, most clearly reflects periodic income.

This statement is followed by a brief discussion which I think is interesting because it goes to the root of the philosophy of the supporters of the last-in first-out method. The discussion is as follows:

> The cost to be matched against revenue from a sale may not be the identified cost of the specific item which is sold, especially in cases in which similar goods are purchased at different times and at different prices. Ordinarily, under those circumstances, the identity of goods is lost between the time of acquisition and the time of sale. In any event, if the materials purchased in various lots are identical and interchangeable, the use of identified cost of the various lots may not produce the most useful financial statements. This fact has resulted in the development and general acceptance of several assumptions with respect to the flow of cost factors to provide practical bases for the measurement of periodic income. These methods recognize the variations which exist in the relationships of costs to sales prices under different economic conditions. Thus, where sales prices are promptly influenced by changes in reproductive costs, an assumption of the "last-in- first-out" flow of cost factors may be the more appropriate. Where no such cost-price relationship exists, the "first-in first-out" or an "average" method may be more properly utilized. In some cases, the business operation may be such as to make it desirable to apply one of the acceptable methods of determining cost to one portion of the inventory or components thereof and another of the acceptable methods to other portions of the inventory.

It is not my intention to present here a plea for LIFO. I suggest, however, that you cannot dismiss it as merely a device to reduce taxable income and I would venture to predict that, in time, it will find its proper place in Canadian accounting. I also suggest that if the income tax administration rejects the method, it will have to explain to the Courts why it is not an acceptable method of determining cost, rather than merely demonstrate that the method is outlawed because the administration has not sanctioned it by regulation.

Loss Carry-over

The loss carry-over provisions appear to have been changed so as to cure one obvious injustice. In the past, the practice has been that where, in a year of loss, a corporation receives tax-free dividends from another company, such divi-

dends are used to reduce the business losses which may be carried back or forward. As a result, it is quite possible that these dividends have been indirectly subject to tax. The new Act provides that the loss for carry-over purposes will be computed in the same manner as would be taxable income, so the tax exempt income will be automatically excluded. I should qualify this observation by saying that the language of the new Act is none too clear but certainly that appears to be the intent of it. In the case of consolidated returns, the application of the loss carry-over has been clarified by specifically providing that the carry-over is applied after consolidating the results of the individual companies.

There is one new tax contained in the new law. It is a 15% tax deductible at the source against non-resident corporations, in respect of fees or payments made to them for management, technical, professional or other services, "know-how", sales rights, etc. This will apply to service charges, technical fees, management fees, etc., which are fairly common as between parent and subsidiary companies.

Constructive Receipt

There are several completely unfamiliar sections introduced into the new Act, the meaning of which is, at first glance, by no means clear. For example, section 16, which is headed "Indirect Payments", extends the law of constructive receipt in a very broad manner. This section is said to be borrowed from the United States law and is by no means as innocent as it appears. For example, an employment contract under which an employer pays premiums to a third party for a pension contract running in favour of the employee renders the employee taxable on such premiums. This will not, of course, apply in the case of an approved pension plan, but it may well require reconsideration of individual management contracts where the employer pays money over to third parties to secure benefits payable in future to the employee.

Taxation of Benefits

I mentioned previously the use of the phrase "to confer a benefit". Section 8(1) now provides that where "a benefit or advantage has been conferred on a shareholder by a corporation" otherwise than on reduction of capital or winding up, the amount or value thereof shall be taxed against the shareholder. This provision could take in a lot of territory. For example, the sale to a shareholder or to all the shareholders collectively of the assets of a corporation at less than their real value, will now expose the shareholder to tax, even though had the sale been made at the proper price, the corporation itself would not have been taxable on the gain. Moreover, as I have already intimated, no one is quite sure just how far-reaching the words "a benefit or advantage" may be when the Courts have considered the question.

New Appeal Procedure

The new law provides for an Income Tax Appeal Board which is to be a court of record and from its decisions an appeal will lie to the Exchequer Court. An effort has obviously been made to simplify the taxpayer's problems by providing inexpensive access to a court whose sole duty will be to deal with income tax matters. The taxpayer may be represented in this court by his solicitor or agent, and it is clearly intended that accountants shall have the right to practise in it. This raises a very difficult problem for the accounting profession, and in my opinion, it underlines the necessity for a clear understanding of our proper relations with the legal profession. Some people have imagined that this is to be another Board of Referees where one sits round a table and

discusses a case in a most informal and pleasant fashion. That concept seems to be far from the mark and we can expect that the Board of Tax Appeals, being in fact a court, will conduct its affairs in the same manner as other courts. Thus, there will be swearing of witnesses, examination and cross-examination, pleadings and argument, and while a few brave souls may venture into this unfamiliar arena without help from their legal brethren, I question very much the wisdom of such a course. I do not mean to suggest for a moment that the opportunity given to accountants to practise in this court is not an important one, and I firmly believe that in most tax disputes the lawyer and the accountant each has a particular contribution to make and the best results will usually be secured by a team effort. You may be sure of one thing — that the administration, in handling its side of tax litigation, is going to avail itself of both legal and accounting advice and experience.

Tax Avoidance

I have purposely left to the end of my remarks the whole question of tax avoidance and tax evasion and this subject presents a nice problem in morality, the answer to which is by no means easy. The natural instinct of the average individual is certainly to avoid paying taxes if he can properly do so. The English Courts have gone so far as to say that it is not only a citizen's right, but his duty, so to order his affairs as to pay the smallest amount of tax possible. So long as the means taken to escape taxes are proper ones, we call it tax avoidance but the difficulty lies in knowing where avoidance stops and improper evasion commences. Certainly the fraudulent evasion of tax by use of deceit and subterfuge will be roundly condemned and the transgressors will receive little sympathy from the public. But there is, and this is where the trouble lies, a large middle ground where the avoidance of tax is proper and even necessary from the point of view of the taxpayer and yet highly objectionable in the eyes of the administration.

Let us take a very simple case of a man who, over the years, has built up his business by plowing back practically all the profits. At the age of seventy he realizes that he has not many years to live, and he finds that if he should die immediately the combination of succession duties and income tax might well bankrupt his estate. In order to protect his dependents, he must do something! If he finds a buyer for the business, whatever money he receives is free of tax in his hands. Alternatively, if he liquidates the business, most of the proceeds may be taxable as though it were a dividend received by him and the taxes may easily take more than one-half of what the business will realize. In such circumstances, is there any real doubt as to the course he should follow; if he sells the business, which he undoubtedly will, are there any grounds for complaint by the State that in so doing he has avoided the tax which he would have had to pay had he followed the other course?

My point is that if, due to the change in our whole social structure, we are going to abandon the view that Parliament has to lay its taxes directly upon the people and that each one of us is free to pay as little as we legally can, then does not the alternative become the completely untenable proposition that the law should require each citizen so to order his affairs as to attract the maximum possible taxation?

Undistributed Profits of Companies

The old *Income War Tax Act* had a series of sections which were designed to prevent the withdrawal by shareholders of corporations of accumulated profits without the payment of tax. These sec-

tions, which were numbered 13 to 20, have been carried forward into the new law without a great deal of change except in connection with loans to shareholders. The new law provides that loans to shareholders will be taxed as income in the shareholders' hands, whether or not the corporation has undistributed income. The provisions relating to the alteration of the share capital of a corporation have been tidied up and it is now possible to determine exactly what subdivisions and alteration of the capital structure can be made without attracting tax. The section dealing with the taxability of undistributed income upon the winding up or reorganization of a corporation have been, I believe, improved by removing the tax when the corporation being wound up is wholly owned by another Canadian corporation. These sections came into the old law after a period of years and by and large they have worked fairly well. As they are clear and specific, objection cannot be taken to them on the grounds that they hamper business through uncertainty as to the outcome of a transaction. Some have felt, perhaps, that they unduly restrict the freedom of action which is generally necessary and desirable, but these objections have not been too serious.

During the war, however, as you all know, the Government passed section 32A and there was a long debate in the House of Commons as to the propriety of this sort of law. The effect of section 32A was to make it possible for the Government to review any transaction and decide that tax had been avoided and thereupon the Treasury Board, which is a committee of the Cabinet, could levy whatever tax it thought was appropriate. Mr. Ilsley admitted the undesirability of such legislation in normal times and pleaded with Parliament for its acceptance as an emergency war measure. At the time excess profits taxes were at their peak and there was a precedent in similar legislation adopted in the British Isles.

Creation of Uncertainty

The effect of this step was to create a degree of uncertainty which, without any doubt, has had and continues to have a restraining influence on business transactions. I doubt if there was any single point in the whole law upon which the public were more unanimous in demanding a change. It was felt, with a return to peace-time conditions and less severe rates of taxation, that we should do away with this emergency measure and return to a condition where the taxpayer's liability could be determined absolutely by looking at the law.

One of the acknowledged aims of the Government in the rewriting of its income tax law was the obtaining of greater certainty, but when it came to deal with section 32A it went hard into reverse and the new law contains an extended and even more objectionable provision in section 126 than was contained in the old section 32A. Section 126 now reads in part "Where the Treasury Board has decided that one of the main purposes for a transaction . . . . was improper avoidance or reduction of tax that might otherwise have become payable . . . . it may give such direction as it considers appropriate to counteract the avoidance or reduction".

I think we must acknowledge that it is probably not possible to draft specific legislation which will thwart every effort at improper tax avoidance. I do suggest, however, that a general barrier can be erected which will stop the great majority of it by legislating specifically as was done in the old Act in sections 13 to 20. As matters stand, however, the penalty which the whole tax-paying community has to pay to forge a weapon against the successful tax evader, and I

think a weapon of doubtful potency, is perpetual uncertainty as to its tax liabilities which may prove a serious obstacle to our future industrial development.

Double Taxation of Corporate Income

I think it is fair to say that by far the greatest part of this whole difficulty stems from the fundamental weakness in our tax method, whereby we attempt to tax income, first in the hands of the corporation which earns it, and a second time when it is distributed to the shareholder. Until this is changed, we will have a steadily increasing problem of undistributed profits invested by shareholders of private companies through the plowing back of earnings. The Government has had to open the gates twice already to release the pressure—once in 1930 and again recently under the Ives Commission legislation. The latter legislation dealt only with surpluses earned prior to the war period, and today the pressure is again building up through the accumulation of current profits plowed back on top of undistributed war-time earnings. If we can solve the problem of double taxation, once and for all, we shall have simplified to an enormous degree the whole question of tax evasion; the type of improper avoidance which will then exist will, I venture to say, be largely of a class which can easily be dealt with under specific legislation. The problem does not exist in England because there they have only one tax, nor does it exist in the United States because of their taxation of capital gains. I do not know what the ideal solution may be but I hope it may be found in some modification of the English pattern, rather than by embarking upon the taxing of capital gains in this country.

A Step Forward

Taking everything into account, it seems to me that there has been a noteworthy improvement in our tax affairs during the past three years. The new law is in itself a great step forward and when we criticize its imperfections, we must have in mind the Minister's acknowledgment that he knows further improvement is necessary and desirable.

Another very favourable development is the change which is occurring in the administration of the Act. There is no doubt that the standard of competence and the morale of the Tax Division has increased considerably and it must be a matter of satisfaction to us that a career in tax administration is now an attractive and worthwhile vocation for the qualified accountant.

Lastly, I should mention what may in the long run prove to be the most significant change of all — namely, that public interest and understanding of the whole question of income tax has been awakened: the number of people in Canada possessing a good working knowledge of the subject has increased many times and in that direction probably lies the surest promise for the future development of a sound system of taxation.

Depreciation Policies Of Canadian Railways

By A. W. Currie, D.Com.Sc. (Harvard)
Assistant Professor
of Political Economy, University of Toronto

An outline of the depreciation policies adopted by Canada's two great railroads, as presented to the Transport Board on the recent application for an increase in freight rates. A discussion of the controversial "user" method adopted by the CPR in lieu of "straight-line" depreciation

IN THE RECENT application of the Railway Association for a 30 per cent increase in freight rates, the Board of Transport Commissioners for the first time in the history of the regulation of steam railways in Canada took into account the effect of depreciation on railway rate levels. In fact, the testimony presented to the Board covered several vital issues in accounting theory.

Earlier Policy

Prior to 1906 the Canadian Pacific appears to have had no policy regarding equipment worn out in service, presumably because it was a new road and substantially all the original units were still in use. After 1906 the company followed renewal accounting,[1] on rolling stock up to 1929, on depreciable road property (stations, bridges, tunnels and the like) to July, 1942, and on non-depreciable road (track and ballast) up to the present. Under the renewal method a station which originally cost $10,000 might require $15,000 to re-erect at the then current prices. Actually it might be re-built of brick instead of wood or be made larger at a cost of $25,000. The increased cost ($10,000) due to the betterment would be charged to capital. The remaining expense ($15,000) including the extra cost occasioned by the higher level of prices would be debited to operating expenses. The original cost ($10,000) would be left unchanged in the accounts.

From 1930 to December, 1939, in the case of equipment (rolling stock, shop machinery, etc.) the Canadian Pacific followed the retirement method. It charged to operating expenses the original cost of the old asset which was being replaced and debited capital with the entire cost of the new asset. This policy was adopted for several reasons. Due to the general rise in the price level, new physical assets cost much more than the original units which had become worn out. Expensive improvements were incorporated in the newly acquired assets in order to reduce the cost of operating them without necessarily increasing their capacity. Revenues fell so much during the depression

[1] Canadian railways appear to give the terms 'renewal' and 'retirement' a slightly different meaning than the generally accepted accounting connotation. R. H. Montgomery, *Auditing Theory and Practice*, (New York, Ronald Press, 1940) pp. 489-90.

that the railway found it difficult to continue charging to operating expenses the full replacement cost of new assets which had the same capacity as the units they replaced.

Present Policy

Since 1940 in the case of equipment and July, 1942, for depreciable road property, the Canadian Pacific has practiced depreciation reserve accounting. Unlike business generally, its annual charge is based on units of use, not of time.[2] On non-depreciable road property such as ties, rails, rail fastenings and ballast, renewal accounting has prevailed throughout. Railway officials said that they could not postpone replacing these items very long. Though everyone knew that these types of property did depreciate, if track were well maintained there was no net loss in values. The clerical work involved in any system of depreciation reserve accounting for these assets would be stupendous.

Witnesses said that the Canadian Pacific had changed to depreciation reserve accounting because retirement accounting had looked forward to this method. Also the company realized that every business ought to state its accounts properly. During the war there would be no retirements in quantity because of the necessity of keeping all units of equipment in operation to handle the swollen volume of business, much of it of high priority. Under these conditions it was impracticable to continue retirement accounting if the accounts were not to be greatly overstated.

Provision of Reserve

Upon adopting depreciation reserve accounting so late in its corporate life, the company faced the problem of providing an adequate reserve. Hence it brought back onto its books in 1940 the amount of $48 million for equipment and in 1942 a further sum of $74 million for depreciable road. These sums had, under renewal accounting, been charged off against operating expenses or surplus prior to 1930 or 1942. They represented part of the amounts by which the asset accounts understated the cost of the plant in service. In effect, the railway in 1940 and 1942 had put its property investment in a measure back to cost and set up the amount of the required adjustment in depreciation reserve. A railway witness stated that, additional to the $74 million above mentioned, a further sum of approximately $200 million should be added to road. This represented capital expenditures in the period 1915-42 charged to operating. This amount was not subsequently reinstated on the books.

In addition to the reserves set up as a result of the 'write backs', the company transferred $20 million from surplus. The unexpended balance in an equalization account provided under retirement accounting,[3] some $8 million,

[2] Straight line depreciation is followed for work equipment, for hotel property, and for the horses, trucks, office buildings, and other physical assets of the Canadian Pacific Express Company. From 1934 to August, 1947, inland steamships were depreciated straight line but as they normally followed an identical schedule year after year the charge would be the same under either method. Because the asset was fully provided for, depreciation on inland steamships was discontinued.

[3] In some cases a unit retired had not been immediately replaced for one reason or another and so the estimated cost of a unit comparable to that retired had been charged to operating and credited to a replacement equalization account pending replacement in due course. In this way the annual charges to operating had tended in rough fashion to be evened out over the years. This retirement reserve was not intended to provide for the annual loss of serviceability but acted

was absorbed in the new reserve for depreciation. When depreciation reserve accounting was begun, the railway had not tried to calculate the amount of depreciation actually accumulated nor estimate the probable remaining service life of the plant in service. Instead it had set up token reserves by re-instating some values and transferring reserves which were no longer needed.

The railway adopted the user method rather than straight line because the former was more realistic, more tied in with what is really happening. All witnesses agreed that over the anticipated life of the property both methods would bring the same result if each were accurately computed. Witnesses for the Canadian Pacific urged that an important difference between the two methods was that straight line charged in the accounts each year, whether good or bad, the same amount while user charged in relation to traffic. Under straight line a railway during a depression might not have enough earnings to provide for depreciation charges. If it were to get an increase in rates then, it might not be able to collect them and, if it did, the public would have to pay higher transportation tolls at the very time when it could least afford to do so. The Interstate Commerce Commission had already found it necessary to postpone straight line depreciation during the financial stringency of 1933. The railway contended that in the long run the user basis was much more favourable to shippers and passengers since the charges varied with traffic levels.

No witness for the Canadian Pacific knew of any other railway which had adopted user but the Interstate Commerce Commission had left the door open by allowing any carrier to adopt user if it could prove it was more satisfactory for its purposes than straight line. Up to the present no carrier has taken advantage of this opportunity but user is followed by many steel companies. To some extent also it is recognized by the Canadian income tax authorities inasmuch as they allow higher than normal depreciation when machinery is used for extra shifts.

The author is a graduate of Queen's and Harvard and is now on the staff of the University of Toronto. He acted as transportation economist for Saskatchewan during the recent freight rate enquiry but he states that the views in this article are not necessarily those of the province by which he was retained.

Basis of Rates

In setting user rates the railway took the estimated service life of each class of property in terms of use based on previous experience and divided this figure into original cost less salvage. After a careful study of the many technical matters involved, the railway finally arrived at rates of 4.1 cents per locomotive-mile for locomotives, 0.6 cents per freight car-mile, 1.9 cents per passenger car-mile, and $108 per million gross ton-miles[4] for depreciable road property. These rates, so the railway pointed out, have been unchanged since the inauguration of depreciation reserve accounting. They will, however, have to be changed from time to time when new equipment has an en-

merely as a cushion or buffer sometimes spreading the cost of replacement over a few years.

[4] Gross tons equal tare weight of freight and passenger train cars plus net weight of freight both revenue and non-revenue in cars.

hanced (or reduced) value over the average price of the same property at the time the railway set the rates.

The company believed that the annual charge for depreciation should be large enough to cover the higher cost of the assets purchased to replace those currently worn out. Money for replacements must come from earnings or borrowings or both. The Canadian Pacific claimed it was desirable to meet the cost of replacements out of earnings in order to avoid fixed charges. In an old company like the Canadian Pacific only a relatively small amount is needed for additions and expansion of facilities. New equipment bought is almost entirely for replacing what is worn out. The new facilities are more expensive on account of the general upward trend in prices but they will not produce any more revenue than the worn-out units did. Under retirement accounting shippers paid enough to keep the property modernized. Under depreciation reserve accounting those who use the facilities should also pay for replacing units presently in service through current charges but not for any extensions that may be needed. Shippers must assume the burden of higher replacement prices if the transportation plant is to be kept in tune with the demands of the public.

Canadian National

The history of accounting for loss of serviceability on the Canadian National is much simpler than on the Canadian Pacific. On equipment its policy prior to 1940 was retirement accounting. In that year the railway foresaw that under war conditions retirements would be held to a minimum and that it was desirable to have the accounts of each year bear their proportionate share of equipment retirement costs irrespective of the date of actual retirement. Hence it adopted depreciation reserve accounting for rolling stock and floating equipment owned by its Canadian lines. The Canadian National was already following this procedure for its United States lines by order of the Interstate Commerce Commission.

The depreciation rates on equipment made effective in 1940 were all straight line and worked out by various classes of rolling stock (e.g., steam locomotives 2.67 per cent; passenger cars 2.38 per cent). They were set on a conservative basis with the intention that they would be reviewed from time to time and adjusted in the light of subsequent experience. It soon became evident that due to the heavy demands of wartime traffic there was rapid acceleration in depreciation and so the annual provision for depreciation was increased. This was accomplished by maintaining the same relationship to traffic for each of the years 1941 to 1944 as subsisted in 1940. Under this arrangement the depreciation charges expressed as a percentage of investment in equipment for the System rose from 2.64 in 1940 to 4.31 in 1943 and 4.16 in 1944. Since equipment will be used less intensively after the war, effective January, 1945, the Canadian National applied to its total investment in equipment owned by its Canadian lines the average of the depreciation rates used by railroads in the United States, namely 3-1/3 per cent. This is a composite rate applicable uniformly to all types of rolling stock and is, of course, on a straight line basis.

On road property like stations, shops and bridges the Canadian National has continued to use retirement accounting except that on rails, ties and other track

Weight of passengers is ignored because their weight is negligible in comparison with the tare of the cars in which they ride.

material, it follows renewal accounting. Canadian National officials stated that they had not followed other carriers in their accounting methods because depreciation reserve accounting for roadway assets constituted an important departure from a long established practice. Prior to 1943 United States railways as a whole had strenuously opposed the new method but their attitude was changed as a result of sharp increases in taxation of corporate income and excess profits. The Canadian National was not subject to such taxes. The company wanted to defer further consideration of the matter until the experience of other roads had become available. Its technical officers were too busy during the war to compile the necessary data and study it carefully.

Provincial Opposition

The seven provinces (all except Ontario and Quebec) which opposed the application of the Railway Association for an increase in freight rates attacked the depreciation policies of the Canadian Pacific with vigour. Because they argued that the high cost of the Canadian National should not be used as a basis for rate-making, their criticism of depreciation was directed almost entirely toward the privately owned road. They took the view that if the life of an asset is over 70 years, no depreciation need be provided and that in an old and mature company the "usefulness [of depreciation reserve accounting] is seriously limited if not, indeed, questionable"[8] for the reason that in such a concern there is normally a regular series of replacements of property. Provincial witnesses also referred to the British Royal Commission on Taxation (1920) which recommended that depreciation not be allowed on property with a life of more than a generation. Though this recommendation was not accepted by the government, it was entitled to some weight.

Called as a witness by the Canadian Pacific, Mr. May confirmed what he had written but asserted that the Canadian Pacific had not yet reached a state of maturity, which he defined as a condition which exists when renewals equal exhaustion of assets. He said that in 1887, when the Interstate Commerce Commission was established, about half the present United States mileage was in existence. At that time the Canadian Pacific was in its infancy and in 1942 when depreciation reserve accounting for depreciable road property was made obligatory in the United States, no part of the Canadian Pacific had been in operation 70 or even 60 years. Consequently he felt that the passage quoted by the provinces had no applicability to the Canadian Pacific. In addition, railway mileage in the United States was being reduced at a relatively faster rate than in Canada. This, he said, was another proof of comparative maturity of the railway industry in the two countries. Under cross-examination Mr. May admitted that he was not familiar with the dates of construction of some of the constituent companies of the Canadian Pacific, with the age of its rolling stock, or with the accounting methods of the Canadian National.

The provinces pointed out that the Canadian Pacific had carried on with renewal or retirement accounting for over sixty years. In no previous rate case had it suggested to the Board that its current accounting method was unsatisfactory. It was significant that the company had not initiated depreciation reserve accounting until it had entered the lush war years. The new method was beneficial tax-wise because with user, depreciation charges increase in

[8] Geo. O. May, *Financial Accounting* (New York, Macmillan's, 1943), p. 118.

almost direct proportion to the growth in gross revenues. It was surprising, so the provinces claimed, that the Canadian Pacific had adopted depreciation reserve accounting 26 years after the United States in the case of equipment and six months before on road.

Criticize Reserves

The provinces also considered that the setting up of reserves on the inauguration of depreciation reserve accounting by bringing back onto the books asset values written off before 1930 or 1942 was unsound. Without making any charge to surplus other than the initial adjustments mentioned above, the Canadian Pacific had in the seven years 1940-47 built up its reserve for equipment to 62 per cent of book value of these assets compared with 50 per cent on American roads which have been accumulating depreciation on equipment for 33 years. A witness for the company, on the other hand, was convinced that the rates presently in use are too low in view of the rise in the price of equipment.

According to the provinces, the policy of the Canadian Pacific with respect to these reserves had serious implications for rate-making. The prime characteristic of renewal accounting is that it charges at the beginning of its useful life the cost of an asset put into service to replace one which has become worn out; of retirement accounting that it charges the cost at the end of life; and of depreciation reserve accounting that it debits a portion of the cost annually during the life of the asset. The public had already paid through rates and fares for assets retired or renewed before depreciation reserve accounting was adopted. Now shippers and passengers are being asked to pay again for these assets through annual depreciation charges. In short, there is a double charge to operating expense. Further the "write-backs" are included in the rate-base on which the company suggested it should get a fair return.

Replacement Depreciation Unsound

It was unreasonable to contend, as the Canadian Pacific had done, that the annual rate of depreciation ought to be high enough not merely to pay for the original cost of the asset currently in use but for the cost of the asset which would eventually replace it, this replacement cost being assumed by the railway to be higher than original cost due to the general rise in prices. Depreciation charges should be for assets currently being used and not for what may be used when the present assets are worn out. It is the task of the investor to supply the funds which are required for new assets. The purpose of depreciation reserve accounting is merely to insure that, so far as possible, the present investment will be preserved and that the user of the physical facilities will pay for the loss in values which is inevitable and which cannot be restored by current maintenance. Even if the railway position on this matter were to be accepted, it does not follow that the general price level invariably trends upward or that new equipment will have exactly the same capacity as that which it replaces. Prices sometimes decline and new facilities commonly have longer life, bigger capacities, and lower operating and maintenance costs than the older equipment.

Objection to User Method

The provinces made a good deal of the fact that user method was not common to business generally nor was it being followed by any other railway. They asserted that it was more difficult to calculate the proper rate under this method than with straight line for accountants and engineers have had less

experience with the former. Under it two factors need to be estimated, namely, amount of use such as locomotive-miles or car-miles, and length of useful life. The emphasis is on the number of units of use but some idea of life is necessary in order to calculate the probable output in service units before the unit or class of units needs to be retired. Under straight line, however, only life needs to be estimated. In addition, as the railway itself had realized, user basis does not automatically adjust itself to increased values of new assets purchased, whereas under straight line the increased cost of assets adds to annual depreciation charges without any change in the percentage rate. This fact makes it easier for the regulatory board to police straight line than user.

The provinces could not take a definite position on the validity of the annual rates of depreciation actually adopted by the Canadian Pacific. The Board refused to accede to their request that the railway submit as evidence the documents by which it arrived at the rates it did. The Board took this position because the documents were voluminous and were not essential to the application for increased freight tolls. Nevertheless provincial witnesses raised numerous queries.

In the period 1920 to 1939 the railway's charges for renewals and retirements of equipment amounted to 2.69 per cent of revenue, while for the six war years charges for depreciation totalled 5.12 per cent of the much enhanced revenues of that period. One Canadian Pacific witness declared that this was due to the increased use of facilities during the war. Another stated that charges prior to 1940 had been inadequate and that the annual report for 1938 had stated that a change in accounting methods was under consideration. Consequently the railway claimed, it was improper to suggest as the provinces had, that the method had been changed in order to take advantage of income tax regulations.

Salvage Values High

Continuing their criticism of the rates of depreciation, the provinces pointed out that the salvage values actually received by the company were higher than those adopted in calculating the user rate. After admitting that this condition may have been due to the war, the witnesses asserted that the life of the equipment appeared to be seriously understated in computing the user rate. The service life of a locomotive according to a Canadian Pacific witness was 35 years, of a freight car 28 years, and of a passenger car 34 years. But the average age of passenger cars actually retired by the Canadian Pacific in the years 1940-45 was 39.6 years. The average age of all locomotives in service on the Canadian Pacific at January 1, 1940, was 26 years and in 1947, 27.5 years. The corresponding figures for freight cars were 20.5 and 23.5; for passenger cars 23.6 and 29 years. As of January, 1940, over one-third of the Canadian Pacific's locomotives, nearly half its freight cars, and four-tenths of its passenger cars were of an age equal to or higher than the service life assumed by the railway in calculating depreciation rates. Although only 18 per cent of the freight cars of a group of strong United States roads were built prior to 1919, on the Canadian Pacific 52 per cent were in that position.

Late in 1946 the company began rebuilding 52 locomotives of a certain class which had been purchased from 1909 to 1914 and re-modelled in the early 1920's. The locomotives after the 1946 re-building would have a

larger tractive capacity than they had originally, and yet, according to the Canadian Pacific, their service life was only 35 years, i.e. from 1909-14 to 1944-49. On shop and power plant machinery the Canadian Pacific's depreciation rate seemed to work out at an average life of 10 or 11 years; the 'guide' life of the Interstate Commerce Commission was 42.7 years; at the company's actual rate of retirements 1936-46 it would take 55 years entirely to replace the present machines.

Rebuttal

In rebuttal, the Canadian Pacific witnesses asserted that depression and war had compelled it to hold retirements to a minimum and this factor partly accounted for the relatively high age of present inventory. The provinces denied this because about 12½ per cent of the book value of this equipment as of January, 1940, had been bought in years 1937 and 1938. Moreover, before the Senate Committee on Railways, 1938, the then president and the present chief engineer both declared that the property was well maintained except for a little paint.

Railway accountants stated that as a result of exceptionally good construction or extraordinarily favourable conditions of service, a few units of a group will have lives much longer than the average. Therefore it is improper to judge the average service lives of a group by the date of acquisition of a few surviving, unusually hardy members of it. Moreover, it is erroneous to assume from exhibits showing the date of acquisition that the equipment in service to-day is really that of the year of original purchase. A locomotive bought in 1907 and re-built in 1922 is for all practical purposes 25, not 40, years old in 1947. Re-building was cheaper than buying new assets at the current level of prices. The provinces asserted that the re-building had been paid for by the shipper through operating expenses.

In any case, re-building of locomotives and cars is much less probable in the future than in the past. Present main-line equipment cannot be demoted to secondary service because it is too heavy for the physical restrictions of rail and bridges, and tractive capacity of modern locomotives is far beyond the needs of branch lines. Even more important, technological advances will soon render present equipment obsolete. The use of light-weight steel in freight and passenger cars, diesels, the gas turbine and so on mean that the foreseeable life of existing equipment or of new equipment that might be added immediately to inventory is definitely less than at any time in the history of railroads.

Then, too, the user method tends toward longer life on the books of the company. "Useful life does not continue until a property is absolutely useless, nor does it end when it ceases to be the most useful available. Where between these two extremes, useful life ends is a question of judgment and to some extent of policy."[6] In the last few years of its physical existence equipment is not unlikely to be used intensively. Eventually it will be used only occasionally, as at the seasonal peak of business. Under the user method, depreciation is charged whenever the equipment is used at all. Accordingly it will be kept in the inventory for a longer time, its maximum period of usefulness, than would be the case under straight line. Under the latter the tendency is to take a shorter life, the period of maximum usefulness, to accumulate depreciation then but to take the unit out of the inventory and dis-

[6] May, *op. cit.* p. 119.

continue charging depreciation as soon as its maximum usefulness is over. The difference in accounting methods explained the apparent old age of Canadian Pacific equipment.

The provinces argued that a long service life implied high maintenance charges and low rates of annual depreciation. The Interstate Commerce Commission recognizes this principle for it allows the Pennsylvania Railroad a longer life and a lower rate of depreciation than other systems because it maintains its rolling stock in unusually good condition. But the Canadian Pacific charged more for maintenance in 1946 than in 1939 after allowing for increased wage rates. These heavy maintenance charges reflected the old age of its equipment. At the same time it asked for a high rate of depreciation. The depreciation rate assumed a short life. Maintenance and depreciation charges taken together were excessive. Railway witnesses denied that one could legitimately compare the sum of the two items in one year with that in another. The two components are influenced by entirely different factors, one by original cost, the other by current price level, the availability of labour and material, and by the ability of the railway to spare equipment from service.

Real Nature of Depreciation

The fundamental point, according to the provinces, was that depreciation is the loss of serviceability of an asset not restored by current maintenance. Assets lose serviceability as a result of wear and tear, weathering, and obsolescence. The first factor is covered by repair and the latter two by depreciation. As both weathering and obsolescence are functions of time, it is essential that depreciation be on a time basis, that is to say, on straight line. Expense for repairs, not provision for depreciation, take care of loss of serviceability through use. It is preposterous to assume, as the user method does, that a station, a fence, or a tunnel depreciates on the basis of ton-miles over the system. User is basically illogical.

Nothing of the sort, the railway contended. The provinces, they said, misunderstood the true nature of depreciation reserve accounting. They were trying to link up what goes on in the property during a year, namely physical change, with the financial accounts of the company. The essential feature in depreciation reserve accounting is not valuation or what occurs in an asset during a given period of time but the allocation, in a systematic and rational manner and in the books of the company, of the cost of tangible capital assets or groups of such assets, less salvage, over the estimated useful life of the assets. It is a process of allocation, not of valuation[7]. Whether the annual apportionment of this cost is related, more or less, to changes in an asset is comparatively immaterial, so long as the cost of the asset is recovered before its serviceability is completely exhausted.

Board's Decision

In its decision[8] the Board outlined some of the arguments presented on accounting methods. It seemed to be impressed with the fact that user basis does not clearly reflect the year-to-year changes in the investment account of

[7] J. G. Glassco, "Depreciation Accounting", *Canadian Chartered Accountant*, October, 1948, p. 173.

[8] In re application of Railway Association for General Increase in Tolls, Bd. of Transport Commissioners, *Judgments, Orders, Regulations, and Rulings*, (Ottawa; King's Printer, 1948) vol. 38, pp. 1, 31-35.

the railway for rolling stock or depreciable road property. Rates on the user basis needed to be constantly under review. The user basis for depreciable road property was much harder to accept in theory than it was as far as equipment is concerned as there are numerous facilities within the 'way and structures' group of expenses such as crossings, and signs, power transmission systems, bridges, trestles, stations, and office buildings which are affected by use by no more than 10 per cent.

A study made by the Board indicated that had depreciation on rolling stock been in effect from 1933 to 1946, a fourteen year period made up of low as well as high traffic volumes, the effective rate on the user basis for Canadian Pacific would have been 3.62 per cent. On United States roads the effective rate for the same period was 3.28 per cent, presumably on the actual or straight line basis mandatory in that country. For the Canadian National the effective rate would have been 3.09 per cent if depreciation accounting had been in use for the entire period. As the Canadian Pacific's user basis would have produced the highest effective rate, notwithstanding the fluctuations in traffic volume, the Board reduced the depreciation charge for 1947 by $2 million on equipment and by a similar amount on road property. These amounts, in the Board's opinion, represented the excess of depreciation charges over and above normal retirements.

Decision Not Satisfactory

It cannot be said that the Board's ruling was a final or even a satisfactory answer to the problem of depreciation. The Chief Commissioner stated that he "did not intend to enter into any extended discussion on the merits of the user basis and of the straight line method of depreciation". Further, while the Board in its decision stated that the Canadian Pacific had submitted exhibits to substantiate the soundness of the rates it had established, the provinces in their appeal to the Cabinet asserted that the Board made no investigation of the propriety of the rates charged and had denied to the provinces access to the data and documents on which the Canadian Pacific has based its rates. In consequence, so they said, the Board had no alternative but to take an arbitrary figure for depreciation or rather for the excess of depreciation charged in 1947 above the proper amount. The Cabinet has referred the provincial appeal against the increase in tolls back to the Board for re-consideration. The old straw will doubtless be re-threshed, but the importance of the subject to public utilities, general business, shippers and taxpayers justifies a searching enquiry.

Auditing Against Fraud

By H. I. Ross, C.A.

(Partner in P. S. Ross & Sons, Chartered Accountants)

An auditor who fails to take proper care may be liable for failing to detect fraud in the accounts. The precautions he should take

THERE are many different kinds of fraud and several happy hours might be spent in drawing contrasts and distinctions between them. The finest and most subtle distinctions are, however, not always the most useful ones, and I think the distinction for auditors to start with is that between fraud by a client and fraud against a client.

Fraud by a Client

Under this heading come manipulations of accounts with intent to produce false statements. The latter may be used to deceive shareholders, prospective investors, banks, the tax authorities and so on.

Fraud Against a Client

This is the sort of fraud that occurs when an employee embezzles the client's funds. Detecting this type of defalcation is, in a sense, only a secondary objective of the auditor. It is to most auditors less interesting than the questions of standards of disclosure, accounting theory and so on, that go with manipulation of financial statements on the grand scale. For that very reason, I think defalcations by employees tend to be discussed by auditors too infrequently.

The Average Embezzler

When a defalcation has been uncovered, everyone tends to be surprised that the particular employee should have been guilty. This is really absurd and it is impossible to approach the subject of embezzlement without first realizing that the average embezzler is not a criminal type. In other words, embezzlement is not a career. Most embezzlers are really interested in doing the job they are supposed to do and fall into crime inadvertently — frequently merely intending to "borrow" money for a short period. This whole subject is admirably covered in a pamphlet entitled "1001 Embezzlers", issued by the United States Fidelity and Guarantee Company, with which you are all perhaps familiar. In this booklet there are many interesting statistics including the following —

(a) In only 4.2% of the cases reviewed was the embezzler classified as a criminal type.

(b) In 91% of the cases cash or goods were taken from funds that were checked by other people.

(c) The average embezzlement had been running for two and a half years by the time it was discovered.

An address to the Chartered Accountants' Students' Society of the Province of Quebec.

(d) The companies involved in these cases only recovered 50% of the total amounts embezzled — their fidelity bonds being inadequate to this extent. (Incidentally, someone has estimated that in 90% of embezzlements there is no insurance at all. It has also been estimated that businesses lose each year more through embezzlement than through fire).

Auditors' Risks

We may now consider the auditor's position in relation to fraud in accounts. It has been fully established at law that the auditor is not a detective nor a bloodhound nor an insurer. He does not guarantee or even certify that the statements are correct. However, he may be found guilty of either fraud or negligence.

It is to be hoped that very little need be said about the auditor's liability for fraud. To become involved in a charge of this sort, the auditor would either have to be a party to the scheme, intending to profit by it, or else would have to display negligence so gross that he would be presumed to be implicated in the fraud itself. The precautions against this type of trouble are too obvious to require much discussion. However, before leaving the subject of fraud by the auditor it might be well to remember that in a case of this sort the auditor might be responsible to any person who suffered through the fraud. This is unlike the case in which the auditor has been negligent, as he can only be sued for negligence by his client. This point will, it is hoped, be somewhat clarified by considering the subject of negligence more closely.

Negligence

It might be said that an auditor is open to a charge of negligence if he does not exercise reasonable care and skill in doing his work. This sort of definition is, however, somewhat too simple and there are many implications which require consideration.

The negligent auditor is one who has failed to comply with certain requirements. These requirements may be imposed either by statute or by a contract (written or verbal) with the client or again the requirements may merely be implied by standards of good auditing practice.

(a) *Statutory requirements*

In certain cases the auditor is governed partly by statutory provisions. Obviously any provisions of this sort must be complied with. This part of the question would seem to be quite straightforward.

(b) *Contract with client*

Here we enter a much more difficult field. In actual practice the terms of the contract with the client are seldom specific. Indeed it is difficult to see how they ever could be. The case against an auditor for negligence usually hinges on whether or not he should have carried out some simple step in the course of his work or else on whether or not he was entitled to accept some explanation from one of his client's employees. It is quite impractical that every single step in the audit programme should be agreed between the client and the auditor. Moreover, it is very doubtful whether the auditor would be protected even if his programme was approved in detail by the client. This is because in many cases it is up to the auditor to judge what steps are necessary. The fact that he has written instructions from the client will not always protect him as he has no right to act on instructions, however specific, if the instructions are not reasonable ones. It is even less feasible to provide an auditor with instructions so detailed that they will guide him in deciding how much reliance to place on each of the explanations he receives in the course of his work.

This point is perhaps worth some elaboration. In the majority of audits, the auditor acts for the shareholders, but he rarely has any direct access to them, most of his instructions coming through the management, nowadays more often than not a different group than the shareholders. In no case would an auditor be entitled to limit his investigation on the plea of instructions from the management if he felt that such instructions were not reasonable in the light of his professional knowledge. I might here digress to suggest an analogy. The auditor may rely in many respects on the approval of responsible officers of the Company. However, as an expert, he presumably has to be sure that such approval could be reasonably effective. For example in a large company, the secretary-treasurer might initial all vouchers to indicate approval of them. If there were so many vouchers passing over his desk daily that he could not be expected to review them intelligently, the auditor would have to be cautious in relying on the approvals.

Before leaving the subject of contract with client, it might be well to mention that in past cases the amount of the fee has frequently been accepted by the Court as an indication of the scope of the audit that was intended by the client but obviously this would not always be accepted as conclusive evidence of the terms of contract.

(c) *Standards of auditing practice*

In many instances the Courts have devoted themselves to a consideration of whether the auditor acted in accordance with recognized standards of auditing practice. The trouble with this approach is, as you well know, that no one has succeeded in setting down clear-cut standards of practice. There have of course been certain statements published on standards, notably in the United States. Furthermore, every text book on auditing is, to some extent, a statement of auditing standards, but nothing so far drawn up has been sufficiently detailed or definite to guide the auditor in most of his practical decisions. It is extremely doubtful whether detailed standards can be set down in black and white, or even whether it is desirable to attempt to draw up a code of practice, each specific rule tending to limit intelligent action by the auditor. However, one point to remember is that in drawing up an audit programme, the auditor must not only consider what he thinks appropriate himself but also what the average professional man would do in the given circumstances.

(d) *Accounting and auditing*

One important aspect of the law of negligence is that it works against the client as well as against the auditor. The client is no more entitled to be negligent than the auditor. In fact it is well established that the primary responsibility for fraud in accounts rests with the client rather than with the auditor. This is only sensible as the client prepares the statements and the auditor merely reports on them and it is obviously more damaging to prepare a fraudulent statement than to fail to uncover fraud in auditing it. However, the point to notice here is that the auditor frequently acts to some extent in the capacity of accountant. In a great many instances the auditor actually prepares the financial statements. He should remember that in doing so he is greatly increasing his responsibility for the statements. Even if he merely drafts the statement for the client and the latter approves them, the fact remains that he has been acting in an accounting capacity and has thus assumed responsibilities beyond those he undertakes as auditor.

One other point might be mentioned in passing. It has been well established

in Court that the wording of the bill to the client will not be accepted as conclusive evidence — in other words, the client may be billed for services as auditor but, if the auditor has actually carried out some accounting for the client, he may be liable on that basis regardless of how he words the bill.

(e) *Suspicion*

One point is very clear-cut in the cases dealing with negligence. While the auditor is not required to approach his work in a spirit of suspicion, once his suspicion is aroused the complexion of the case changes entirely. While this is very well understood, it does raise many difficult practical decisions for the auditor. Any auditor is almost certain to encounter some circumstances at every stage of the audit which may either be very sinister or quite innocent. When some sort of irregularity is noticed, it is usually susceptible to some quite straightforward explanation. The tendency is to accept plausible excuses from responsible people but it is well to remind ourselves that these cases, once they get into Court, bear an entirely different complexion. We should always be sure that our suspicions are not too difficult to rouse. It is notoriously easy to be wise after the fact. Let us remember that everything we do may be subject to second guessing in the cold, uncharitable light of the courtroom.

(f) *Duties beyond the scope of the laws of negligence*

Having dealt at some length with the question of negligence, it is perhaps well to mention that it would be a very poor sort of auditor who would set as his goal merely the avoidance of a charge of negligence. In other words, any auditor worth his salt would want to carry his work well beyond the point of merely avoiding legal liability.

Audit Procedure

In the fight against fraud, the auditor's work might be divided into two categories. There is first of all the actual checking which he performs himself and there is, secondly, the interest he takes in the internal control embodied in the client's accounting system. The latter is an aspect of auditing which has gradually become more prominent until to-day it is probably the most important part of auditing against defalcation.

Some consideration should be given to each of these categories.

Internal Control

A review of the system of internal control is obviously most important but there are certain inevitable limitations to a system of internal checking. These should always be kept in mind.

(a) *Collusion*

To begin with any system of internal control rests almost solely on the difficulties of collusion between employees. In other words, the whole attempt is to see that each person's work is checked by some one else. Obviously it is a tremendous safeguard to have a system which prevents fraud except by collusion but it must nevertheless be remembered that collusion is anything but an impossibility. In the cases analysed in the booklet "1001 Embezzlers", 10% involved collusion.

(b) *Other considerations*

It must also be remembered that no client operates solely to prevent fraud by its employees. The management has many other more important objectives to worry about. Frequently the requirements of internal control run contrary to one of these other objectives. It is often difficult, therefore, to arrange for the client's accounting to be carried on in the most desirable way from the point of view of internal

control. Everyone knows the tiresome individual who always rises in a discussion of internal control and asks what the auditor is to do when the entire accounting staff consists of one person; but the problem is more serious than this. Even in a fair-sized office — employing say twenty or thirty on the accounting staff — it is frequently very difficult to arrange a division of work which is completely satisfactory from the auditing viewpoint.

(c) *Cost of system*

It must be remembered that as the internal control becomes more elaborate, it is almost inevitable that accounting costs are increased. There are many cases in which this is a very serious consideration.

(d) *Conservatism*

Despite these limitations, the possibilities of internal checking should be fully exploited. The auditor should review the accounting system. Its strength will have a bearing on the work he will decide to do himself and he should be in a position to make useful recommendations for improvements.

Before leaving the subject of internal control a warning on the dangers of overchecking might be *apropos*. There is a tendency for these systems to become more and more complicated and it should always be remembered that if three or four people are to check a transaction, each of them will be much less likely to do a good job than if solely responsible for the checking.

Checks by the Auditor

The work of auditing may be considered as divided into three parts:—

(a) *Systematic checks*

Most of the work is devoted to certain routine checks which make it difficult for a client or one of his employees to manipulate the accounts. This is the type of thing the auditor does, for example, in reconciling bank accounts, checking postings and additions, examining vouchers, etc. All auditors are incurably methodical in their work and need surely not be encouraged to emphasize these systematic checks.

(b) *Other tests*

It is probably rarely that defalcations are pinned down by routine checking. They are discovered in most cases by being stumbled upon. No audit programme, however complete and well designed, can hope to catch an embezzler if the latter is aware of the auditing steps that are called for in the programme. It is therefore of the utmost importance that the programme should leave scope for different surprise tests each time the audit is done. These tests can be of infinite variety. The possibilities of percentage analyses are just beginning to be appreciated. Moreover there are many subsidiary records which can be used in devising fresh tests — receiving slips, customs entry forms, requisitions, purchase orders, etc.

(c) *Moral effect*

It is important to remember that a very substantial part of the auditor's work should be prevention rather than detection of fraud. Auditors tend to think mainly of those tests which lead logically to fraud detection. However, we should remember that to many of our clients the work of auditing is a mysterious business and many tests are extremely effective in a moral way even if, from a logical accounting point of view, they do not lead remorselessly to the uncovering of fraud.

On Improving Corporate Financial Statements

By Alan W. Bell, M.B.A., C.A.

A substantial part of the public believes that reported profits are deliberately under-stated in published reports. What can accountants do to improve the standards of financial statements?

ALTHOUGH there has been some improvement in financial reports issued to stockholders during the last number of years, it is clear that much remains to be accomplished in this area of accounting. In the United States progress in this respect has been much more rapid than in Canada. But, even there, criticisms of published corporate statements are numerous and come from persons in many walks of life. In connection with profit and loss statements a poll conducted by the Controllership Foundation Inc. indicated that 45% of the public believe that reported profits of corporations are deliberately understated. A former Chief Accountant of the Securities and Exchange Commission writes:

> Personally, in view of the measure of social and economic responsibilities being shouldered by public accountants, I think it fair to ask this question: Is it any longer appropriate, if indeed it ever truly was, for an accountant when he knows statements are to be sent to public stockholders or made available to the general public, to say with respect to a highly condensed balance sheet accompanied, if at all, by an even more condensed and incomplete income statement, that such statements "present fairly" the position of the company and the results of its operations?[1]

Need for Improvement

There are those both in and out of the profession who are inclined to pay little or no attention to all the current discussions of financial statements which indicate a general dissatisfaction and mistrust of information relayed to public shareholders through corporate annual reports. Most forward looking accountants and businessmen, however, view this situation with some alarm. George D. Bailey, President of the American Institute of Accountants, in the 1948 Dickinson Lectures before the Harvard Graduate School of Business Administration says:

> So necessary is it to have adequate data on the functioning of corporations that, if corporations do not provide this information there is sure to be a demand that the government provide it, that the government take over the responsibility of interpreting to the public the progress of corporations, both singly and in the mass. I think there can be little question that, if a governmental bureau or agency has to take over the responsibility for corporate reporting,

[1] "Recent Developments in Accounting", William W. Werntz, *The Accounting Review*, April 1947. P. 138.

there will be a serious restriction upon the development of our American system of free enterprise.[2]

What can we in the accounting profession in Canada do to improve the standards of published financial statements? Several alternatives are available:

Minimum Standards of Disclosure

(1) We can adopt a passive do-nothing attitude and attempt to justify our position by claiming that the statements are those of the corporation and that so long as they comply with the minimum requirements of the law, we can do very little except to try to encourage better practices. An example of how effective this has been, and may be expected to be, may be found by one example. In October, 1946 the Dominion Association of Chartered Accountants through its Committee on Accounting and Auditing Research published a statement dealing with the *minimum* standards of disclosure in annual financial statements of manufacturing and mercantile companies.[3] In connection with inventories the Bulletin states that "if any reserve is deducted from inventory value, the amount should be shown separately". An examination of published financial statements issued since the above date clearly indicates that neither corporations nor the certifying accountants have taken the above Bulletin at all seriously. And this is in spite of the fact that the Bulletin purportedly dealt only with *minimum* standards of disclosure, and in spite of the statement in the Bulletin that "if in his (i.e. the certifying accountant's) opinion, a balance sheet, while conforming to the requirements of the Companies Act, still does not present fairly the financial position of the company, he will urge that further information be given or he will report to the shareholders on its shortcomings". It is to be hoped that the endorsation of the above Bulletin by the various Stock Exchanges will have a salutary effect, but at best, one can expect only a very slow improvement in financial statements to be the result.

[2] George D. Bailey, "Problems in Reporting Corporation Income", *Harvard Business Review*, September 1948, P. 514.

[3] Bulletin No. 1, Committee on Accounting and Auditing Research, Dominion Association of Chartered Accountants.

Mr. Alan W. Bell, a graduate in Commerce of the University of Alberta, obtained his Master's degree in Business Administration from Harvard. Since 1940 he has been with the firm of P. S. Ross and Sons. He became a member of the Quebec Institute in 1945.

Change the Law

(2) We can resign ourselves to a system of "accounting by legislation" and press forward with the study of proposed amendments to the *Dominion Companies Act* insofar as these relate to disclosures in financial statements. We cannot deny that something can be accomplished in this way. The writer is, however, in complete agreement with the views expressed by George D. Bailey in the quotation noted earlier. Several objections to accounting to a government-ordered pattern may be mentioned:

(a) It is inflexible.

(b) It places an important area of accounting in the hands of those not as fully qualified to deal with the problem as the profession itself.

(c) It certainly would not increase the prestige of the profession, and would be indicative of a defeatist complex not entirely worthy of the profession.

(3) We can try to establish within the profession a general acceptance of

principles of accounting and of standards of disclosure in financial statements such that deviation by clients from these principles and/or standards would *necessarily* result in a qualification in our certificate, or even a refusal to certify in cases where the effect of the non-accepted practice would, in our opinion, make the statements misleading. In this connection we will do well to study carefully the "Tentative Statement of Auditing Standards" which has been approved by the membership of the American Institute of Accountants at its 1948 annual meeting, especially insofar as it refers to standards of reporting.

An Example

Let us consider one example of the way in which this system of self-regulation might be worked out:

(a) The Committee on Accounting and Auditing Research studies the question of provisions for future declines in inventory values and let us assume arrives at the same conclusion as did the similar committee of the American Institute. It issues a Bulletin to the effect that such reserves are of "a nature that charges or credits to such reserves should not enter into determination of net income and that they should not be used to relieve the income account of any year."[4]

(b) The members of the Dominion Association in general meeting adopt a resolution to that effect. By such adoption, the members agree that statements not conforming to the principles adopted will not be given an unqualified certificate. It might be advisable at the same time to include in our certificate the phrase now standard in American practice to the effect that the statements are drawn up in conformity with generally accepted accounting principles.

We must never forget that in our unqualified certificates we are saying to the world that, in *our* opinion, (not the management's opinion), the statements are drawn up so as to give a "true picture". It is a professional problem and it is we who should make the decision as to what principles of accounting and what standards of disclosure are necessary in order that financial statements may present this "true picture".

[4] American Institute of Accountants, Accounting Research Bulletin, No. 31.

PUBLIC REACTION

Sitting on a street-car recently next to a stranger reading the January issue of *The Canadian Chartered Accountant*, we politely asked him how he liked the new cover. He turned back to it as if looking at it for the first time and answered, "Oh, I don't care one way or the other. It's about as dull as it ever was." A little later he remarked that Mr. Oliver Wellington's article was most interesting; and later still, with no warning — "but my wife thinks the cover is fine".

We recall some years ago helping a carpenter on a repair job being done on our house. One detail was given to us to do. After spending two hours on work which the carpenter would have completed in 15 minutes, we asked him how we were getting on. This brought the response, "Well you're gaining!"

We also remember that one of our friends in Montreal told us in 1947 that what our magazine needed was sex appeal. We are in some doubt now after the incident in the street-car whether we have "gained".

Recent Books

Profits Tax, by Herbert Edwards, M.A., and Alan M. Edwards, B.Com., F.C.A. Gee & Co., London, England. Pp. 88 (12/6d)

This small volume presents in an illustrated form the provisions of the *Finance Act, 1937,* (which dealt with the levy of a National Defence Contribution concurrently with the Excess Profits Tax) revised by the *Finance Act* of 1947 and re-named Profits Tax.

The Canadian practitioner will be interested in comparing this English Profits Tax with our defunct Excess Profits Tax. The Profits Tax is levied on incorporated business only; a certain basic income (£2,000 against our $5,000) is exempt; and an abatement, one-fifth of the excess of £12,000 over the profits (against our $25,000) is allowed where the profits do not reach this amount. Investment income is franked for the purpose of this tax. On the other hand, the English tax favors the non-distribution of profits by reducing the ordinary rate of 25% to 10% upon amounts retained by the corporation. This policy is explained by the fact that in England double tax is generally not levied and non-distribution of profits strengthens the economy, reducing spending money without reducing the normal tax collected by the Revenue. Special provisions are made for the remuneration of directors who have controlling interests in the corporation. A working knowledge of the English tax system is, of course, required in order to appraise this volume explaining the intricacies of the Profits Tax.

George Moller, C.A.

Costing For Control, by J. H. Burton. Gee and Co. (Publishers) Ltd., London, England. Pp. 91 (12/6d)

The author, an expert in accounting, economics and administration, undertakes to survey costing of the type needed for control, for the industrialist and the high executive, rather than for the cost accountant.

In the first part of his book, Mr. Burton makes the point that costing should cover its own cost, i.e. "that the outcome of a full and accurate costing scheme is the showing of certain information about manufacture, selling, distribution, and — though often overlooked — administration and costing". Especially interesting are the paragraphs on costing of construction, manufacturing contracts and the investigation of costing records. In line with the advance of socialization in Britain, the main directions of financial control, by costing of departments, services and other non-trading activities, are covered. This includes the services of public bodies which in the author's opinion need and will need proper cost accounts to help management. Centralization of costing as an aid in control and economy is advocated. The treatise deals, albeit concisely, with the audit of stocks and stores for financial accounts and the verification of the existence and ownership of stock-in-trade, and gives effective directives for the audit of costing records.

In the second part, the book deals with better control through proper records of assets, better control over pilferage and theft, better control through proper

stores keeping, profits and losses on stocks and stores, profits and losses in the buying department and, finally, valuing stocks on hand for income-tax purposes. In this part the author quotes extensively from the report on the *McKesson & Robbins* case. He argues in connection with inventory verification that "the auditor should be ready to test and to apply criticism but not to be drawn into a position which he could not truly fill and from which he could not, with dignity, recede".

The book can be described as an interesting attempt to sell the idea of costing to executives and management. It should find many interested readers on this side of the Atlantic, and professional accountants may find the chapters on the audit of special cost accounts a valuable basis for a program in specific cases.

George Moller, C.A.

Efficient Business Management Through Budgeting and Budgeting Control, by J. E. Spinosa Cattela, Member of Netherland Institute of Accountants. Published by MacDonald and Evans, 1948, London, England, 140 pages.

Budgeting is explained as "a plan of campaign intended to substitute considered intention for opportunism in management". The faster tempo of economic change, the uncertainty of political actions, the increased size of businesses, the achievements of scientific time and motion analysis in production management; all these factors have combined to increase the need for budgeting.

The author was at one time the chief cost accountant of Philips' Glowlamp and Radio Works, Eindhoven (Holland). Throughout his penetrating book he emphasizes that budgeting is a different problem in each enterprise. The reader is supplied with factors to consider in preparing a budget, often illustrated by examples, but there are not the detailed schedules with accompanying instructions that often characterize books on the subject. This is a book to interest those searching for new viewpoints in preparing budgets or for those seeking to examine the possibilities of control through budgeting.

The final or master budget emerges from the recapitulation of a number of individual budgets. It is needed to coordinate all the budgets which are listed as follows: (a) The Sales Budget, (b) The Production and/or Purchase Budget, (c) The Stock Budget, (d) The Expense Budget, (e) The Financial Budget, (f) The Budget for the Purchase of Fixed Assets. The first three quarters of the book deals with factors to be considered in preparing the budgets. The rest of the book discusses the control of the budget through the comparison of the operating results with the final budget, the relationship of the budget to the bookkeeping, and lastly, the difficulties and dangers inherent in budgeting.

This is an interesting, well written book which advocates the use of budgets as tools of efficient management; and it is short.

F. H. Buck.

Current Reading

The Training of Accountants

The Australian Accountant (September, 1948) contains an interesting article by Mr. R. J. Chambers who discusses the question of what is wanted — training or education. He stresses the desirability of a wider training and a more selective training for accountants, as a basis for a broader outlook on business and community life than narrow specialisation bestows.

> Accountants, and all people occupying positions of responsibility, are continuously meeting novel combinations of factors already experienced, and situations involving altogether new factors: the very novelty of these situations demands an imaginative approach rather than uncritical applications of outmoded procedures taught in dogmatic fashion, without the perspective which a study in derivation and development could give.

Stale Figures

We think that a paragraph in *The Accountant* (November 20, 1948) is very well done and that it also points a moral. Here it is:

At the Dogs

> Pressure of space has prevented us from referring before to Wimbledon Stadium's News Bulletin, No. 83, issued by the Publicity Departments of South London Greyhound Racecourses Ltd. The bulletin gave us some amusement. On one side of the foolscap sheet we learned why Mrs. Regan's greyhound, Sadowlands Delight, has gone off form: it has too many red corpuscles in its blood. On the other side, the company gives itself a pat on the back for its prompt accounting. On 1st October, dog fans were informed that the company's directors—and incidentally the directors of Southend Stadium Ltd.—would 'meet to consider the accounts for the year ended 30th September, to announce profits' —and presumably to recommend dividends. The Bulletin dilates on the advantage of dealing promptly with the past year's accounts, and points to the obvious interest shareholders in a public company have in this quick service. We smiled—but only to see this lecture on prompt accounting in this particular context. With the principle involved, we have the strongest sympathy. Prompt accounting comes more easily to a greyhound racecourse company than it does, for instance, to an industrial concern with wide ramifications; but we see far too much of stale figures with other companies to feel any satisfaction with the present state of affairs.

Published Reports

The Economist devotes considerable space each week to the publication of (horrible word) "abridgements" of the addresses of corporation officers to the shareholders in annual meeting. The tenor of these addresses, apart from a few local allusions to the company's business, is much the same. Dividends are held down by taxation, by the need for withholding funds for replacement of capital purposes and because the Government has requested that dividend rates be not increased. Occasionally, statements are made which are debatable, to say the least, and perhaps, as may have happened in the quotation that follows, it is the abridgement which produces an effect similar to the last line of a limerick. It is the unexpected which causes amusement.

From the statement of the chairman of Roan Antelope Copper Mines Limited, as published in *The Economist* of December 4, 1948, we quote:

I think it will be generally agreed that even on a conservative basis, the net reserve position is satisfactory. Attention has recently been focussed in the press and elsewhere on the increasing difficulties which many companies have had in financing their replacement expenditures without having recourse to new issues of capital. We have fortunately been able to avoid this position so far because we have for many years past provided for future replacements on the basis of estimated future costs instead of only charging depreciation on the basis of past costs.

Furthermore, we have either used pre-war costs in valuing our copper stocks and therefore have not created book profits by writing up the stocks to current cost, or we have valued our stocks on a rising cost but have immediately eliminated the apparent profits resulting from the rise in costs.

These two essential points of our financial policy have had the result, by comparison with other book-keeping methods, of depressing our published profits in order to maintain a sound actual cash position.

The Board has decided to revert to the pre-war practice of issuing quarterly statements of production and profits.

The same gentleman in speaking to the shareholders of Mufulira Copper Mines (as reported in *The Economist* of December 11, 1948) says:

Last year I reported that the City Commissioners had dismissed the company's appeal on the question of the method of copper stocks valuation and that we were considering an appeal to the High Court. After the fullest consideration and discussion with the company's legal advisers the directors have regretfully come to the conclusion that the prospects of establishing an error in law are so remote as not to justify an appeal to the High Court.

Then, after dealing with Profit and Loss Appropriations,

It is a matter of opinion as to how the net financial reserves may be calculated from this balance-sheet. I think it will be generally agreed, however, that even on the most conservative basis, the net reserve position is not unsatisfactory. This matter is specially important under present conditions when the costs of new capital works are so greatly inflated and when there is so large a volume of such work ahead of the company. The replacements reserve now amounts to £1,600,000. The Board has decided to revert to the pre-war practice of issuing quarterly statements of production and profits before taxation.

From the construction of the two reports, they are identical in wording for the most part, it appears that the companies are under the same management and have substantially similar undertakings. There does appear to be, however, some difference in accounting treatment of similar problems.

Municipal Auditing

We reprint, without comment, the whole of an editorial which appeared in *The Orangeville Banner,* one of the most favourably known of the Ontario weekly newspapers, in its issue of November 25, 1948. If this is a fair statement, it is an indictment of the Department of Municipal Affairs, which before the end of another annual period should give considerable thought to the matter.

Municipal Auditing

The Banner has been very busy for the last two weeks with the municipal work that precedes the annual nomination meetings. This work includes the printing of Auditors' reports that are quite often put in book form along with the council minutes and other matters that belong to the record of a council's work for the year. To our way of thinking these Auditors' reports are becoming more involved and less intelligible as the years pass. Twenty or twenty-five years ago local auditors did the auditing for most of the smaller municipalities throughout the province. They did the work efficiently for a modest remuneration and presented

reports that the average ratepayer could peruse and understand. Today chartered accountants are doing the work. Their reports cost the municipalities several times what the old reports cost and we are doubtful if the ordinary, everyday citizen would understand one half of their contents. They contain very little about the expenditures of a township, town or village, except in a general way, for the reports are mainly a summary of the expenditures under various classifications. It is not any serious exaggeration to say that they are more remarkable for what they conceal than the information they reveal. The last straw came this year when the Department of Municipal Affairs devised a standard form which all municipal auditors are expected to use, whether the municipality is large or small. It may be, probably is, alright for arranging and classifying for statistical purposes the information that municipal auditors are supposed to dig up and set forth in their reports, but so far as local municipal officials are concerned it is a headache, and that goes for the unfortunate printers as well. What has the average rural municipality to do, for instance, with subways, tunnels, viaducts, waterways, breakwater and harbor development, laboratories, golf courses, swimming pools, beaches and baths, museums, art galleries, etc. and yet these forms are cluttered up with questions relating to these and many other matters that are not likely to have any application outside the larger urban municipalities. We have always thought that auditors' reports and all statements of a financial nature relating to municipal and other public business should be made as concise and understandable as possible. Evidently the Department of Municipal Affairs and the licensed auditors think otherwise.

Turn-About is Fair Play

The Australian Accountant (October 1948) contains a report of the Jubilee Social Evening of The Commonwealth Accountants' Students' Society, which was founded on August 24, 1898. We congratulate them. The report is humorous and well-written, withal showing what conscientious work was put into the arrangements for the dinner. Prizes were awarded to those instructors and others who had been of assistance to the members and the Chairman of the Board of Examiners of the Commonwealth Institute of Accountants was presented with a report on the examinations, as follows:

Report of Candidates to the Examiners Commonwealth Institute of Accountants

The papers set were generally of fair standard and show improvement over previous efforts commensurate with the greater experience of the examiners.

There are a number of points, however, calling for comment.

1. Brevity may be the soul of wit, but brevity in the time allowed to answer the questions is not funny. Examiners should remember that the candidates have not the advantages of the examiners in knowing the answers in advance.

2. The questions are theoretical rather than practical. We require knowledge for daily use; therefore questions such as (*a*) the concealment of profits; (*b*) how to swallow one's spittle on the arrival of a taxation investigator; (*c*) how to market on the black; (*d*) how to pad an expense account, would be of immediate and tangible value.

3. Your last report states "It is again recommended that candidates study closely the model answers published in "The Australian Accountant". Good; but they are produced too late to be of value at the examinations. This needs only to be mentioned to be corrected.

4. You say, too, Commercial Law II—"This on notice of dishonor of a bill, was very well answered." Why not! We answer from experience.

General

It is said that a coach and four horses can be driven through most things; our failures must therefore be ascribed to the employment of a slow coach.

Well, here's hoping to NOT meeting you again.

We are, etc.

P. B. Candidates.

Letters From Readers

Disagreement on Municipal Accounting Practices

Ottawa, December 23, 1948.

Sir: A reader of my article on "Institution Funds" in the April, 1948 issue was kind enough to send me a dossier in which certain municipal accounting practices were discussed without reaching complete agreement.

It might be helpful to point out that many differences of opinion as to the correct presentation of accounting statements could be straightened out if the purpose for which the particular accounts are prepared were given primary consideration.

To take up a sample question: "When preparing an annual statement of the revenues and expenditures of a fund, is it correct to bring forward a surplus accumulated during the operations of a previous year?"

The approach might be as follows:

"What purpose have we in mind when preparing the statement?"

"Are we going to compare current revenues with current expenditures?"

"Do we also want to know the financial position of the fund after considering all accumulated revenues and expenditures to date?"

Similarly, when dealing with the annual profit and loss statement of an industrial enterprise:

"What is the purpose of the account?"

"What is the profit or loss from industrial operations? . . . from operations in connection with the financing of the enterprise? . . . from changes in the current monetary values of materials and services and from other economic casualties brought about by new customs and methods?"

Once the purpose is defined, the accounting system becomes a matter of routine and technique.

If it is the purpose to prepare a statement for the prospectus so that a prospective shareholder may be encouraged to invest in an enterprise which is currently operating at a loss, the accounting system may include a means of bringing some of the "special credits", accumulated in the past, into the profit and loss account of the current period —a conservative practice, justified by trade cycles, according to one of the proponents of the idea.

But anybody with a purpose of this nature in mind would be advised to turn up Volume 21 of *The Canadian Chartered Accountant* and read about the well-known *Royal Mail Steam Packet* case.

MONTAGU CLEMENTS.

Simplified Form of Financial Statement

Montreal, Dec. 6, 1948.

Sir: I read with particular interest the article entitled "What's the Matter with our Balance Sheets", by Mr. N. R. Moran, which appeared in the November issue.

The presentation of financial statements has for a considerable time been the subject of long discussions amongst the members of our profession. It is very interesting to note that someone has put into print some concrete suggestions for their presentation in some form which would be more easily understandable by the layman.

Sometime ago, I devised a simplified form of monthly statement for the Directors of our Company somewhat along the lines that Mr. Moran suggests. (*See opposite page — Ed.*) Possibly, I have gone a step further by showing comparative figures. I invite comments from other members as to the advisability of adopting some similar form of statement for presentation to shareholders.

Some American firms have adopted comparable forms and I am of the opinion that the time is fast approaching when there will be a general revolution in this line. Some laymen seem to take extreme views on the matter to the extent of cluttering the accounts with all sorts of fancy descriptions which would be the envy of comic writers.

If the profession is to continue to guide the business man in the presentation of accounts and guard him against subjecting them to ridicule, the members must join in their concerted efforts to prepare some simple form of statement easily understood by the layman.

H. A. LEBLANC, C.A.

ROLLAND PAPER COMPANY LIMITED

BALANCE AT 1ST OF YEAR		BALANCE AT
	Current Assets	
	Cash in Banks and on Hand	
	Marketable Securities	
	A/Cs. Rec. Trade Less Reserve	
	A/Cs. Rec. Other	
	Inventories	
	Current Liabilities	
	Loans Payable	
	Accounts Payable	
	Accrued Charges	
	Bond Interest Accrued	
	Provision for Taxes on Income	
	Other Taxes Payable	
	Dividends Accrued-Pfd.	
	-Com.	
	1st Mtge. Bonds Due Within 1 Yr.	
	Working Capital	
	Other Assets	
	Repair Parts Wires & Felts	
	Contracts Receivable	
	Refundable Portion of E.P. Tax	
	Miscellaneous	
	Fixed Assets	
	Bldgs. Mchny. & Equipment	
	Less Reserve for Dep.	
	Land	
	Water Power	
	Trademarks	
	Deferred Charges	
	Insurance & Taxes	
	Bond Disc. & Exp. Less Written Off	
	Comm. on Pfd. Stock Less Written Off	
	Working Capital & Other Assets	
	Less 1st Mtge. Bonds Series "A"	
	Net Assets	
	Derived From	
	Preferred Stock	
	Common Stock	
	Surplus	

FINANCIAL POSITION

The Students' Department

J. E. Smyth, C.A., Editor

NOTES AND COMMENTS

WE HAVE recently been reading R. M. Jackson's *The Machinery of Justice in England* (Cambridge England, The University Press, 1940); and thinking our readers might appreciate a little variety once in a while, it occurred to us that here was something different to talk about.

What we really propose to do is to quote at some length the details of an extraordinary case cited by Professor Jackson. It is a case that illustrates how court costs may sometimes come to assume an importance far greater than the issue originally at stake in the dispute. Before proceeding with our quotation however, one of the terms used possibly calls for a little advance explanation. We refer to the term "payment into court".

It is possible for a party who acknowledges a liability of a certain amount and who has tendered it to deposit the sum with a court official if the other party refuses it and commences an action, "as a security against costs" as is said. Then any litigation initiated after that time by the other party will be at his own expense — except where the amount awarded by the court exceeds the sum deposited. In this way the law provides a means by which a person making a proper tender of payment need not be prejudiced by an obstinate or unreasonable creditor. It follows that if one admits a liability for, say, damages of $500, he may pay that money into court in the event the other party refuses to take it and sues him for a larger amount. In the action itself the plaintiff will be concerned of course to establish a case for damages in excess of $500. If he can do so, the defendant as the unsuccessful litigant must generally bear the court costs. If the plaintiff fails to do so however, though he is awarded *some* damages (less than $500), he must bear the costs of the action he insisted upon.

We think the point of the case will be quite apparent without our going into the difference between conversion and infringement (assuming we could explain the difference anyway), so here it is as cited in a footnote to page 245 of *The Machinery of Justice in England*.

"The case of *Sutherland Publishing Co.* v. *Caxton Publishing Co.* may be studied. The plaintiffs owned the copyright in a work entitled "Heating and Ventilating". They sued the defendants, alleging that in a book called "Modern Plumbing" the defendants had infringed their copyright. The plaintiffs claimed damages for infringement and damages

for conversion under the Copyright Act, 1911, section 7. The defendants admitted infringement and offered to submit to an enquiry for damages, but denied that the plaintiffs could get damages for both infringement and conversion. This point came before the court (1936); the High Court found for the defendant, but on appeal the Court of Appeal found for the plaintiff. The case then went back to the High Court for damages to be assessed on the basis that the plaintiff had two heads of damages. This hearing took ten days, the judge eventually fixing the damages at £150 for infringement and £50 for conversion. The defendants had, however, paid £251 into court at an early stage of the dispute, a fact of course known to the plaintiff but not known to the judge. The result was that the defendants became entitled to the . . . costs incurred since the date of payment into court. The plaintiffs then appealed to the Court of Appeal, and the defendant cross-appealed. As Mackinnon, L.J. said, "It is obvious that by this time the costs of litigation were far more a matter of importance than any vindication of the originality of the literary work entitled "Heating and Ventilating". If the plaintiffs could induce the Court of Appeal to put the damages at more than £251 then the plaintiffs would get . . . costs for all the hearings, whereas if the defendants could induce the Court of Appeal to leave the figure at £200 (the cross-appeal to reduce the figure being perhaps a tactical move) then the defendants would get the costs. Mackinnon L.J. spoke of winning or losing the "costs game" and observed that "the spice of a gamble may now be added to the joys of litigation". The Court of Appeal (Mackinnon L.J. dissenting) raised the damages to £495 with the consequent order for costs against the defendants. The defendants then appealed to the House of Lords. The House of Lords discharged the order of the Court of Appeal and restored the order of the trial judge, thus bringing the damages down again to £200; the order as to costs took account of the defendant's cross-appeal, so that finally the defendants were given the bulk of the costs in the courts below and two-thirds of the costs in the House of Lords. The amount of the costs must be far greater than the sum in dispute and neither party can have gained anything. Yet the plaintiffs had a genuine grievance which the defendants tried to meet in a reasonable way."

CORRESPONDENCE

Saint John, N.B.

Sir: For some time your correspondent has intended to write you with regard to a practice which has become quite common in the preparation of the yearly examinations.

The practice in question has been in style for a lengthy period — I refer to the use of letters, words and phrases so arranged as to imply that the questions had been prepared by a professional comedian with a keen sense of humour. For example: Mr. C. U. Later, The S A D Company, Harris & Worry Company, O. Faith & I. Hope — among others mentioned in the 1948 uniform examinations.

During my student days I treated all examinations with a maximum of respect — feeling that these tests were prepared by responsible members of the profession for the purpose of judging my technical qualifications and knowledge of the required subjects. Your correspondent could see nothing amusing in these examinations, too much depended upon a successful result, and therefore the matter of passing became a matter of serious concern.

Would it not be advisable for us to have a "New Look" in examination terminology to the extent that intended firms and jokes would be eliminated from the examination material?

J. E. Howes, C.A.

A Problem for the Consideration of Those Interested in Cost Accounting:

Jones & Co. manufacture a single uniform product. The standard unit cost of the product is computed as follows:

Raw materials	100 lbs. @ .30c a lb.	$30.00
Direct labour	40 hours @ .90c an hour	36.00
Factory service		
Fixed	40 hours @ .20c an hour	8.00
Variable	40 hours @ .40c an hour	16.00
		$90.00

The unit cost for fixed factory service above is based upon "normal" plant operations. "Normal operations" are taken as the labour of 1,000 employees each working 8 hours a day, in all producing 200 units a month.

During the month of January 1949 150 units were completed. At January 1, 1949 there were 20 units on hand 50% completed as to materials and labour, and at January 31, 1949 work in process consisted of 40 units 60% completed as to materials and labour.

Labour time for January was 7,200 man-hours.

Fixed factory service costs for January were $1,580 at actual prices.

Required: (a) Loss from idle capacity
(b) Fixed factory service price variance
(c) Fixed factory service efficiency variance.

(Our suggested answer will appear in next month's issue.)

Problems and Solutions

Solutions presented in this section are prepared by practising members of the several provincial Institutes and represent the personal views and opinions of those members. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

Problem 1

FINAL EXAMINATION, DECEMBER 1947

Accounting IV, Question 3 (30 marks)

The pre-closing trial balance of the Promotion Association at 30th June 1946, was as follows:

Canadian bank	$ 6,200	
Accounts receivable—Members	11,250	
Advertising accounts	625	
Inventory—Printed bulletins 31st December 1945	20,800	
Accrued interest	200	
Victory Bonds	15,000	
Furniture and fixtures	5,400	
Prepaid insurance	70	
Accounts payable		$ 2,700
Allowance for depreciation		1,250

Surplus 31st December 1945		37,128
Membership dues—Year 1946		32,500
Year 1947		1,500
Sales of bulletins		4,442
Advertising revenue		3,250
Interest on investments		300
Salaries	10,000	
Printing — Bulletins	10,800	
Office expenses	2,455	
Depreciation	270	
	$ 83,070	$ 83,070

The profit and loss account for the year ended 31st December 1945 as disclosed by the books was:

Membership dues 1945		$ 38,000
Membership dues 1946		400
Sales of bulletins		9,840
Advertising revenue		4,450
Interest on investments		700
		$ 53,390
Cost of bulletins:		
Inventory 1st January 1945	$ 17,600	
Printing bulletins	21,600	
Binding bulletins	900	
	$ 40,100	
Less inventory bulletins 31st Dec. 1945	20,800	
	$ 19,300	
Expenses:		
Salaries	17,700	
Office expenses	2,600	
Depreciation	525	
		40,125
NET PROFIT FOR THE YEAR		$ 13,265

The Association engages in various activities, principally the publication of monthly bulletins containing data of permanent interest to its members. These bulletins are printed by outside printers and are mailed each month to the members. At the end of the year, additional bound volumes of the twelve issues are available to the members at $8.60 per volume, while extra copies of the monthly bulletin are sold at 50 cents each.

The membership dues are $10.00 per annum, payable in advance, and it is customary to charge the members the full year's dues on 1st January each year. All dues for the year 1945 are paid.

Inventories of bulletins and bound volumes (by quantities) on hand at closing dates were as follows:

	Bulletins	*Bound Volumes*
31st December 1944	17,300	1,900
31st December 1945		
1944 Issues	16,900	1,500
1945 Issues	10,400	300
30th June 1946		
1944 Issues	16,700	1,380
1945 Issues	9,900	250
1946 Issues	11,000	

The cost of printing is 30 cents a bulletin and the cost of binding $3.00 per volume. During the period under review, 6,000 copies of the bulletin were printed each month.

The liabilities at 30th of June 1945 are all recorded.

Required:

(a) Balance sheet at 30th June 1946.

(b) Corrected statement of income and expenditure for the year ended 31st December 1945 and statement of income and expenditure for the six months ended 30th June 1946.

Solution

Promotion Association

Statement of Bulletin Sales by Quantities

1st January 1945 to 30th June 1946

	Issues				
	1944		1945		1946
	Unbound	*Bound*	*Unbound*	*Bound*	*Unbound*
Inventory 1st Jan. 1945	17,300	1,900			
Printed 1945			72,000		
Bound 1945			3,600	300	
	17,300	1,900	68,400	300	
Less					
Distributed 1945 — 3800 per month			45,600		
Inventory 31st Dec. 1945	16,900	1,500	10,400	300	
	16,900	1,500	56,000	300	
Sold during 1945	400	400	12,400	—	
Inventory 1st Jan. 1946	16,900	1,500	10,400	300	
Printed					36,000
Less					
Distributed 1946 — 3290 per month					19,740
Inventory 30th June 1946	16,700	1,380	9,900	250	11,000
	16,700	1,380	9,900	250	30,740
Sold to 30th June 1946	200	120	500	50	5,260

Statement of Sales by Quantities and Amounts

	31 December 1945		30th June 1946	
	Quantity	*Amount*	*Quantity*	*Amount*
Unbound Bulletins				
1944 Issue 50c each	400	$ 200	200	$ 100
1945 Issue 50c each	12,400	6,200	500	250
1946 Issue 50c each	.....	.....	5,260	2,630
Bound Volumes				
1944 Issue $8.60 each	400	3,440	120	1,032
1945 Issue $8.60 each	.....	.....	50	430
		$9,840		$4,442

Statement of Cost of Bulletins Sold and Distributed

	31 December 1945		30th June 1946	
	Quantity	*Amount*	*Quantity*	*Amount*
Unbound Bulletins				
1944 Issue 30c each	400	$ 120	200	$ 60
1945 Issue 30c each	58,000	17,400	500	150
1946 Issue 30c each	.....	.....	25,000	7,500
Bound Volumes				
1944 Issue $6.60 each	400	2,640	120	792
1945 Issue $6.60 each	.....	.....	50	330
		$20,160		$8,832

Computation of Inventory Values

31st December 1944

17,300 Unbound Bulletins at $ .30	$ 5,190
1,900 Bound Volumes at 6.60	12,540
Inventory 31st December 1944	$17,730

31st December 1945

1944 Issue—16,900 Unbound Bulletins at $ .30	$ 5,070
1,500 Bound Volumes at 6.60	9,900
1945 Issue—10,400 Unbound Bulletins at .30	3,120
300 Bound Volumes at 6.60	1,980
Inventory 31st December 1945	$20,070

30th June 1946

1944 Issue—16,700 Unbound Bulletins at $ .30	$ 5,010
1,380 Bound Volumes at 6.60	9,108
1945 Issue— 9,900 Unbound Bulletins at .30	2,970
250 Bound Volumes at 6.60	1,650
1946 Issue—11,000 Unbound Bulletins at .30	3,300
Inventory 30th June 1946	$22,038

Adjusting Journal Entries

Surplus	$13,265	
Profit and Loss 1945		$13,265
To set up Profit of 1945 before adjustment		
Profit and Loss 1945	400	
Profit and Loss 1946		400
Transferring 1946 dues shown in 1945.		
Profit and Loss 1945	130	
Surplus		130
Adjusting value of Opening Inventory. Books—17,600 should be 17,730.		
Profit and Loss 1945	730	
Inventory Bulletins		730
1945 Inventory over-stated—Books—20,800, should be 20,070.		

Statement of Income and Expenditure

For the Year Ended 31st December 1945 and for the six months ended 30th June 1946.

	31 December 1945		30th June 1946	
INCOME				
Membership Dues	$38,000		$16,450	
Bulletin Sales	9,840		4,442	
Advertising Revenue	4,450		3,250	
Interest on Investments	700	$52,990	300	$24,442
EXPENDITURE				
Cost of Bulletins sold and Distributed — per statement	$20,160		$ 8,832	
Salaries	17,700		10,000	
Office Expenses	2,600		2,455	
Depreciation — Furniture and Fixtures	525	40,985	270	21,557
NET INCOME		$12,005		$ 2,885

Promotion Association

Balance Sheet at 30th June, 1946

ASSETS

Canadian Bank		$ 6,200	
Accounts Receivable—Members	$11,250		
—Advertising	625	11,875	
Investments			
Victory Bonds	15,000		
Accrued Interest thereon	200	15,200	
Inventories — at cost		22,038	
Prepaid Expenses — Insurance unexpired		70	$55,383
Furniture and Fixtures — Less Depreciation			4,150
			$59,533

LIABILITIES		
Accounts payable		$ 2,700
Membership Dues in Advance 1947	$ 1,500	
Membership Dues Unearned 1946	16,450	17,950
Excess of Assets over Liabilities		
Balance at 31st December 1944 (adjusted)	23,993	
Add excess of Income over Expenditure		
31st December 1945	12,005	
30th June 1946	2,885	38,883
		$59,533

Editor's Note:

The editor admits that when working this problem on his own, he did not prepare any of the first three statements in the above solution, but computed "cost of bulletins sold and distributed" from the revised inventory valuations and the costs given in the problem, viz.,

	December 31, 1945	June 30, 1946
Opening inventory	$17,730	$20,070
Printing bulletins	21,600	10,800
Binding bulletins	900	.....
	40,230	30,870
Closing inventory	20,070	22,038
Cost of bulletins sold and distributed	$20,160	$ 8,832

Problem 2

FINAL EXAMINATION, DECEMBER 1947

Accounting IV, Question 4 (15 marks)

A Canadian company asks you to determine its taxable income and furnishes you with its annual financial statements.

Using your own figures, prepare a profit and loss statement which might have been submitted to you in this connection, including therein as many items as you can recall which, under the provisions of the Income War Tax Act, are required to be eliminated in the calculation of the taxable income of the company. On the basis of the net profit shown by the statement you have prepared as instructed above, show your computation of the taxable income of the company.

Solution

A COMPANY LIMITED

Statement of Profit and Loss

for the year ended December 31, 1947

Sales		$1,000,000
Deduct Cost of goods sold (including amortization of trademark, $3,000)		600,000
Gross trading margin		400,000
Deduct Selling and administration expenses		
Advertising	$18,000	
Depreciation on office building	25,000	
Bad debts expense	3,000	

Repairs to office equipment	7,000	
Office salaries	41,000	
Life insurance premiums on lives of company officers	4,000	
Miscellaneous expenses (including entertainment of customers, $1,000)	2,000	
		100,000
Net trading margin		300,000
Deduct Financial expenses		
Bond interest (including bond discount amortized, $1,000)	9,000	
Carrying charges on vacant land	2,000	
		11,000
		289,000
Add Subsidiary revenue		
Profit on disposal of fixed assets	13,000	
Dividends received from Canadian subsidiary	19,000	
Cash discounts earned on purchases	3,000	
		35,000
Profit before taxes		324,000
Deduct Provision for Dominion and Provincial taxes on income		120,000
Net Profit for year		$204,000

A COMPANY LIMITED

Calculation of Taxable Income

for the year ended December 31, 1947

Net profit for year per statement of profit and loss		$204,000
Add Back		
Provision for Dominion and Provincial tax	$120,000	
Carrying charges on vacant land	2,000	
Bond discount amortized	1,000	
Entertainment of customers	1,000	
Life insurance premiums on lives of company officers	4,000	
Amortization of trademark	3,000	
		131,000
		335,000
Deduct		
Profit on disposal of fixed assets	13,000	
Dividends received from Canadian subsidiary	19,000	
		32,000
Taxable income		$303,000

Editor's Note:

The above solution does not show as non-deductible items any expenses which are subject to ministerial discretion (e.g., provision for bad debts). If such an item were shown as non-deductible, it would have to be accompanied by an explanatory note.

Professional Notes

NEW BRUNSWICK

Morrell and Company, Chartered Accountants, announce the opening of an office at 5 Eddy Building, 19 Bonaccord Street, Moncton, N.B. with Mrs. Erma P. MacPherson, C.A., as resident partner.

ONTARIO

Monteith & Monteith, Chartered Accountants, Stratford, Ontario, announce that Mr. Gordon W. Riehl, C.A., has been admitted as a partner of the firm.

* * *

England & Leonard, Chartered Accountants, Kingston, Ontario, announce the admission to partnership of Mr. L. G. Macpherson, B.A., C.A. and of Mr. A. J. Saunders, B.Com., C.A. The practice of the firm will be carried on under the name of England, Leonard, Macpherson & Co.

* * *

Mr. Morris E. Duckman, C.A., announces the opening of an office for the practice of his profession at 762 Bathurst Street, Toronto, Ontario.

* * *

Mr. S. Stewart Joscelyn, C.A., announces the removal of his office to Suite 409-410 11 King Street West, Toronto, Ontario.

* * *

Mr. Charles F. G. Hill, C.A., announces the opening of offices at 80½ James Street North, Hamilton, Ontario for the practice of his profession.

* * *

Wm. C. Benson & Company, Chartered Accountants, announce that Mr. Lawrence W. Pastorous, C.A., has been admitted to the partnership of the firm and will be connected with its Windsor office.

* * *

Mr. Philip T. Barnes, C.A., announces the opening of an office for the practice of his profession at 905 Armoury Street, Niagara Falls, Ontario.

Chartered Accountants' Club of Ottawa

The regular monthly luncheon meeting of the Chartered Accountants' Club of Ottawa was held at the Chateau Laurier on December 14, 1948. A very informative address on trade between Canada and Italy and on his experiences as a Liaison Officer to Canadian units in Italy, was delivered by Dr. Pietro Migone, Commercial Attache, Italian Legation. Mr. James Ross presided.

PRINCE EDWARD ISLAND

The Prince Edward Island Institute held a dinner meeting on December 7th at the Queen Hotel, Charlottetown, with the Registered Students of the Institute as honoured guests. The special speaker was Mr. W. A. Morrell, F.C.A., who spoke on "Examinations". Mrs. Erma MacPherson, C.A., conducted an open forum on the "Queen's Course as Presently Instituted".

QUEBEC

Mr. Israel J. Sheinman, C.A., announces the removal of his office to 914 Transportation Building, 132 St. James Street West, Montreal, Quebec.

* * *

The annual informal dance of the Chartered Accountants Students' Society of Quebec was held at the Ritz Carlton Hotel on the 10th December 1948, with over two hundred couples in attendance.

At a cocktail party prior to the dance, the President, Roland R. Pouliot, and his executive committee entertained the honored guests including John Bennett, President of the Chartered Accountants Students' Association of Ontario, Mrs. E. Dixon, Assistant-Secretary of the Institute; Messrs. T. V. Burke, C. N. Knowles and G. P. Keeping, officers of the Institute of Chartered Accountants of Quebec, and their wives.

SASKATCHEWAN

The November luncheon meeting of the Regina Chartered Accountants' Club was held at the Kitchener Hotel, November 10. Dr. M. C. Shumiatcher, K.C., gave an interesting address on "Labour in a Changing World". Mr. W. A. Fowlie presided and Mr. F. H. H. Smith expressed the thanks of the Club to the guest speaker.

At the Regina Chartered Accountants' monthly luncheon held on December 8th, Dean S. Basterfield, B.Sc., Ph.D., F.R.S.C., was the guest speaker. His subject, "World's Food Supply from the Scientific Viewpoint," dealt with a matter brought to the foreground by the recent war and now recognized as a world problem. Mr. W. A. Fowlie was in the Chair and Mr. R. Hodsman thanked the guest speaker.

* * *

Mr. James A. Peters, C.A., announces the opening of an office for the practice of his profession at 106-1855 Scarth Street, Regina, Saskatchewan.

THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

Committee on Accounting and Auditing Research

The Committee met in Montreal on Monday and Tuesday, December 13 and 14, with 12 of the 14 members in attendance. It was agreed that contact should be maintained with the stock exchanges, financial writers and other groups interested in financial reports in order to promote wider understanding of the work and problems of the profession and these various groups.

The Committee discussed the problem of accounting for bad debt losses and is in the process of drafting a bulletin on this subject.

Considerable time was devoted to the question of inventory valuation with particular reference to the use of LIFO and the definition of the term "market" in the phrase, "lower of cost or market". The Committee would welcome information from members as to their interpretation of the term "market" and their experience in respect of inventory valuation.

A year ago Council of the Association asked the Research Committee to undertake a revision of the manual on Accounting Terminology for Canadian Practice. The Committee has had the problem under discussion for some time and work is going forward on the project. It is hoped to include references to American and English practice and definition where these differ from Canadian practice or definition. During the discussion, special attention was given to the definition of "surplus" and "reserve" and the various contexts in which these terms are used in Canadian practice.

A number of other matters, including special purpose certificates, notes appended to financial statements and accounting for pension funds contributions, were considered by the Committee.

On Tuesday, the members of the Committee were guests at a luncheon tendered by Mr. T. V. Burke, President of the Institute, Mr. C. N. Knowles, 1st Vice-President, Mr. J. Valiquette, 2nd Vice-President and Mr. G. P. Keeping, Honorary Secretary-Treasurer.

Legislation Committee

The Legislation Committee met in Ottawa on October 15 and 16 to consider the suggestions received from the various Institute Committees for amendments to the new Income Tax Act. Detailed recommendations were received from the B.C., Ontario, P.E.I. and Quebec Institutes. The Committee decided that any recommendations to be submitted to the Minister should be confined to those sections of the Act to which it was considered important that amendments should be made from the inception of the new Act. A further meeting of the Committee was held in Ottawa on November 22 at the time of the Tax Conference arranged by The Canadian Tax Foundation.

On the suggestion of the Canadian Bar Association, it was decided that a joint brief should be submitted to the Minister of Finance by the Tax Committee of the Bar Association and the Legislation Committee of the D.A.C.A. as was done prior to the submission of Bill 454 last year.

The Committees of the two Associations met in Toronto on December 17 and reviewed the draft recommendations which had been prepared. Mr. M. Douglas, Director of the Canadian Tax Foundation, attended the meeting on the invitation of the two Committees.

The joint brief will be submitted to the Minister of Finance and published in *The Canadian Chartered Accountant.*

CHARTERED ACCOUNTANTS PROMINENT IN NEW BRANCH OF CONTROLLERS INSTITUTE

The first Canadian branch of the Controllers Institute of America has been formed in Montreal with several Chartered Accountants in its executive and membership. The purpose of the Institute is to further the study of financial problems such as corporate budgeting, preparation and publication of annual reports and security financing. Membership is restricted to the senior financial officers of companies having a net worth of at least $2 millions.

The president of the Montreal Control is F. S. Capon, C.A., the vice-president and secretary is J. A. Desrochers, C.A. A. Archibald, C.A., and D. Farish, C.A., are directors. Other Chartered Accountant members are R. S. Aiken, J. M. Blanch, T. C. Davis, N. E. Kenrick, J. Mackie, J. W. Tait, and W. J. Veitch.

Another Canadian branch is expected to be formed in the Toronto-Hamilton area in the near future.

Questions and Concise Answers

AUDITING & THEORY

By L. MARDER, LL.B., C.P.A.

is designed for the final review, that period before the examination when voluminous texts contribute little but worry and confusion. It will teach the C.A. candidate to answer questions in a style preferred by Examiners — briefly and to the point.

1800 Questions with Answers, Cloth—492 pp. $10.00
1300 Questions with Answers, Cloth—448 pp. 7.50
500 Questions with Answers, Paper 2.00

Free Descriptive Circular

CONCISE TEXT PRESS

P.O. Box 824 - Church St. Annex
NEW YORK 8, N.Y.

MR. ACCOUNTANT...

Here's good news for you!

10% DISCOUNT

on your purchases of Ledger Sheets, Binders, Columnar Sheets, Columnar Pads, Stapling Machines, Staples, Cellulose Tape, Dispensers, etc.

"OUR PRICES ARE LOWER"

For prices and further information write or phone:

ATLAS PRINTING CO.

"The Accountant's Supply House"

LLoydbrook 5702

663 College St. - Toronto, Ont.

HIGHER ACCOUNTING
and ALLIED SUBJECTS
taught
The SHAW way—*the SURE way*

Subjects Included in Our Coaching Courses

Commercial Mathematics	Secretarial Practice	Office Management
Commercial Correspondence	Mercantile Law	Partnership Act
Bookkeeping and Accounting	Bank Act	Advanced Accounting
Bills of Exchange Act	Cost Accounting	Auditing and Investigations
Dominion Companies Act	Income Tax Act	Business Organization and Administration
Provincial Companies Act	Bankruptcy Act	
Dominion Winding Up Act	Principles of Economics	

The student has all the time required by him to complete the course and he has the privilege of consulting the school after the course is finished. Once a Shaw student always a Shaw student.

The student is privileged to consult our instructors in any of his personal accounting problems, even though they may be outside the scope of his course.

Write to Dept. CA for Catalogue and any special information you desire.

SHAW SCHOOLS

Head Office: 1130 Bay Street, Toronto KI. 3165-6-7

47

She's Raising Office Costs With Her Bare Hands



Bare hands? Yes . . . hands that lack the proper equipment, the right tools, to get work done efficiently. It's a situation that would not be tolerated for a minute in the factory, yet is all too familiar in the office. Result: steadily mounting costs, excessive overtime, the hiring of temporary help.

Any business can meet this problem by providing office workers with the right machines for their jobs. At one desk, a simple adding machine may be required; at another, a calculator; at still another, a bookkeeping or billing machine. *Whatever the need,* it must be met for office efficiency—just as surely as factory workers must be supplied with the right power tools and machines for production efficiency.

A desk analysis by your trained Burroughs representative is the first step toward reducing costs in your office. Burroughs Adding Machine of Canada, Limited, Windsor, Ontario.

WHEREVER THERE'S BUSINESS THERE'S **Burroughs**

THE MARK OF SUPERIORITY IN MODERN BUSINESS MACHINES

The Standard Life Assurance Company

The Pioneer of Life Assurance in Canada

For over 100 years, the Standard Life has been serving Canadians, and is proud to include among its clients many of the largest and best known Companies in Canada.

The Standard specializes in all forms of Life Assurance and Pension Plans.

Head Office for Canada

MONTREAL

ONTARIO BRANCHES OFFICES

TORONTO—80 King St. W.	**Gordon B. Coyne,** Branch Mgr.
HAMILTON—126 King St. E.	**J. A. Wright,** Branch Mgr.
OTTAWA—46 Elgin St.	**L. Whitney Spratt,** Branch Mgr.
LONDON—365 Richmond St.	**R. W. Porter,** Branch Mgr.